1 7 1982 1035-B-2 Y4. B 85/3 : 97-4

EFFECT OF THE FEDERAL BUDGET ON STATE AND LOCAL PLANNING

COMPLETED ORIGINAL

Y4.B 85/3: 97-4

HEARING

BEFORE THE

COMMITTEE ON THE BUDGET
HOUSE OF REPRESENTATIVES

NINETY-SEVENTH CONGRESS

SECOND SESSION

MAY 17, 1982
ORLANDO, FLA.

Printed for the use of the Committee on the Budget

[97-4]

U.S. GOVERNMENT PRINTING OFFICE
95-521 O WASHINGTON : 1982

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EFFECT OF THE FEDERAL BUDGET ON STATE AND LOCAL PLANNING

MONDAY, MAY 17, 1982

U.S. House of Representatives,
Committee on the Budget,
Orlando, Fla.

The committee met, pursuant to notice, at 8 a.m., in the city council chamber, city of Orlando, Fla., Hon. Bill Nelson presiding.

Mr. Nelson. I want to call this meeting to order. Good morning to you all. Thank you for coming out so early in the morning, and thanks to my two colleagues, Congressman Gephardt from Missouri, and Congressman Johnston from North Carolina, for being so gracious with your time to come at a very busy time to Orlando to have an official field hearing of the House Budget Committee.

This committee meeting comes at a most apropros time, for we have just passed a vehicle out of the House Budget Committee on its way to the floor. We start debate this coming Friday before the full House of Representatives, with the amendatory process starting a week from today, on Monday. Thus, the testimony that we will receive today will be extraordinarily important to us.

To my knowledge, this is the first time that we have had an official meeting of the House Budget Committee, not only in central Florida, but in Florida itself. So this is a treat for me, to be able to host such an occasion.

Throughout the morning, as our witnesses arrive, I will continually repeat that I am going to try to keep everybody right on schedule, because we have a rather ambitious schedule.

We solicited what we feel is a cross-section of economic sectors affected by Federal spending policy to appear with their views before the committee.

Let me say to the witnesses that are already here, if you have a prepared statement, please submit it. We will have it entered as a part of the permanent and printed record of the committee. Then if you would like to summarize, that will be fine, in the interest of time.

Our first panel of witnesses will cover the subject of agriculture. I want to call Jerry Chicone, Jr., who is one of our very prominent citrus growers and a personal friend of mine. He is Mr. "Can Do" of Orlando. I expected him to show up in his tangerine colored coat this morning. He comes from a long family history in agriculture and citrus growers.

STATEMENT OF JERRY CHICONE, JR., FLORIDA CITRUS GROWER

Mr. CHICONE. Thank you, Mr. Chairman.

I appreciate this opportunity to express a businessman's view on the critical subject of the budget and the economy.

Americans want lower inflation, lower interest rates, lower taxes, more jobs, and less government. Uncontrolled Federal spending is the real culprit and it needs to be cut on all fronts. Including SBA and in agriculture.

Spending cannot be controlled without dealing with runaway entitlement programs. These so-called entitlement programs such as food stamps, social security, welfare, and medicare increase automatically each year. Congress has turned its back on these politically popular programs and allowed them to bring the economy to its knees. These programs should not be untouchable sacred cows—this deficit must be reduced by freezing them.

In agriculture today—the interest charges in 1970 were $3.2 billion. In 1981, they jumped to $19 billion. Now the total interest charges equal the total farm income.

Besides all these financial problems the flood gates of Brazilian orange juice and Mexican vegetables are causing great harm to the private enterprise system here in Florida.

We must get Americans back working again. To do this, the free enterprise system needs certainty and credit. The Federal Government must put its business in order and reduce this deficit, thereby lowering interest rates, thereby creating many jobs.

Thank you for this opportunity this morning and please take the message back to Washington to operate the budget in the same manner proper businesses have to operate. Thank you.

Mr. NELSON. Mr. Gephardt, do you have any comments or questions?

Mr. GEPHARDT. I appreciate your testimony. I would just like to comment on one thing you said here. I am interested in the Brazilian orange juice and Mexican vegetables. Are you feeling a lot of pressure here with imports from those two places?

Mr. CHICONE. The Mexican vegetables, my friends that are in the farming business have expressed that to me. So I do not know that firsthand.

I am a Florida citrus grower. Our crop was devastated by one-fourth this past year with the freeze. So we lost one-fourth of our supply. If the law of supply and demand works, that means that our income, or the price we receive from our crops should be better this year than last year. As a matter of fact, it is the same, and the reason it is the same is that the law of supply and demand has been amended, because the Brazilian citrus growers, who pay $3 a day for their labor, have flooded our markets with orange juice.

This is just one example I tried to show that our jobs here in Florida are not as plentiful this year because we don't have the extra income that should be generated to prune our groves, and do the various things that we need to do.

So in a sense, it is hurting American labor by bringing in—and the interesting thing is that the consumer is paying no less for oranges. That is the whole ball game. If the consumer were getting a break, I wouldn't have much to say, but the fact is that orange juice prices are at record highs. So Brazil, which pays, as I said, $3 a day for their labor, which is controlled; one family in Brazil owns more orange trees than the whole State of Florida. So it is quite a threat to us.

Mr. **Gephardt**. I appreciate your being here.

Mr. **Nelson**. Mr. Johnston.

Mr. **Johnston**. Mr. Chicone, I agree with everything you said in your speech. As a matter of fact, I used that term—the two things the business community needs is certainty and credit. Volcker has the credit. At least the Congress can provide the certainty. What concerns me about the spending program our committee passed is if it goes into effect the Federal Government will be spending 24 percent of our gross national product next year. When you couple the State and local government spending with it, you see an economy 44 percent controlled by government. If we can push it 6 more points, I think we can pride ourselves in having the largest socialist economy in the world. If we don't get control of these programs that automatically escalate, we are going to have the world's largest socialist economy, at least for a few years. Congratulations.

Mr. **Chicone**. Thank you.

Mr. **Nelson**. I might say, on the Brazil issue we have had talks with Sam Gibbons, who is in a key position as the chairman of the Trade Subcommittee on the Ways and Means Committee. You might be interested to know Congressman Gephardt is also a member of that committee, which is critical for the ultimate protection of domestic growers—not only here, but in Texas, and in California. That problem is being worked on right now.

Mr. **Chicone**. Thank you.

Mr. **Nelson**. Thank you for your testimony.

Let's welcome Lowell Teal, representing the Farm Bureau of Orange County.

Mr. Teal, we enjoyed seeing you last night. We appreciate your being here this morning.

STATEMENT OF LOWELL TEAL, FARM BUREAU OF ORANGE COUNTY

Mr. **Teal**. Thank you, Congressman. I believe you have a statement there.

American farmers are not experiencing a recession today—depression is a more accurately descriptive term.

Today's net farm income, when adjusted for inflation, is comparable to the 1933-34 years. Currently, many row crop farmers—corn, soybeans, cotton, grains, and so forth—are experiencing costs of production in excess of their expected returns from their marketed goods. Since 1977, prices received for crops have risen 34 percent in contrast to the cost of production input items which have risen more dramatically. Fuel costs alone have risen approximately 113 percent since 1977, fertilizer about 100 percent, and other chemicals about 80 percent. Florida citrus growers today receive approximately the same net returns as in 1963 while production costs have doubled.

In a business depending heavily upon credit, as does agriculture, the combination of declining income and high interest rates are pushing countless farmers toward bankruptcy. Net farm income has plummeted for the fourth straight year—in 1979 farm income was $32 billion; 1980, $19.9 billion; 1981, $22.9 billion; and 1982 is projected at $17 billion.

Interest expenses today account for approximately 13 percent of the average farmer's production costs. Targeted at $20 billion, the total interest cost exceeds the projected 1982 farm income. Interest expense has experienced a sixfold increase since 1970 as a factor in production costs.

The volatile nature of farm income was shown by USDA economist, George Hoffman, who said a 1-percent change in the annual average interest rate on all farm debt outstanding could alter net farm income by 10 percent or about $3 billion. If annual gross income and production expenses each change just 1 percent in opposite directions, expect a 15-percent impact on net farm income. A 3-percent change in opposite directions would have a 50-percent impact on net farm income.

It is an appalling statistic to note 51 percent of Farmers Home Administration operating loans were delinquent at the beginning of this year compared with 26 percent in 1979. Foreclosure proceedings have been initiated against an alltime high of 2,500 farmers so far.

The U.S. Department of Agriculture estimates the country's 2.4 million farmers were $194.5 billion in debt January 1. That is more than double the debt of 1975. In the same period, annual farm expenses have risen from $75.9 billion in 1975 to $141.5 billion in 1981.

The farmer is in a vicious cycle. In order to survive, the farmer generally opts to borrow more at higher rates to produce in greater abundance for the purpose of satisfying debts, when in effect, the farmer is contributing to an already growing surplus which further drives commodity prices down. Farmers are unlike those businessmen who can postpone borrowing. Most farmers feel they must borrow each spring in order to put in his crop or join those going slowly bankrupt.

Farmers, and most farm organizations, have generally supported the President's economic recovery program feeling a more market oriented agriculture would mean less Government intervention. The Florida citrus industry, to the great joy of every grower, was developed through sound marketing techniques totally without Government assistance. Today, orange juice is one of our most popular drinks and successfully marketed worldwide.

Almost 20 percent of the 14 million small businesses in America are farms, groves, and ranches. Yet agriculture, according to Agribusiness Institute of Florida, is America's largest industry. Agriculture is willing to accept its cutbacks to survive as must all segments of the national economy.

Our national economy cannot recover until interest rates come down. Interest rates will remain high until the Federal deficit is substantially reduced. A deficit of the magnitude our country faces will not only consume available capital but drive interest rates even higher.

Reducing the deficit by raising taxes is unacceptable. Uncontrolled Federal spending is the real culprit and must be curtailed, and spending cannot be controlled without dealing with runaway entitlement programs. The deficit must be reduced by controlling Federal spending, not by raising taxes.

Mr. NELSON. Thank you for your very thoughtful statement. Questions for Mr. Teal?

Mr. GEPHARDT. I just want to underscore what you said about having to deal with the entitlement programs, especially social security. I guess you realize what a difficult thing that is to do for Members of Congress when so many people are dependent on social security.

I am not speaking for anybody here other than myself, but I believe that the cost-of-living escalator on social security that Congress put in in 1972 has been a major cause of the problem, both in the social security system and in the budget. I don't think Congress can or should change social security for just budgetary purposes alone, but for the sake of the social security system. And that is going to need cuts in COLA. I think that is one way to do it.

Other ways are to change the basic formulas. I guess we all understand it is going to be difficult politically to do. I just hope when the time comes that that is done—which I think will be toward the end of this year—I hope people like you will stand up and be heard, because I can assure you the people that are going to be injured, or at least they are going to perceive they are going to be injured in the program, will be heard, and Congress will need every person who feels the other way to be vocal about it. I appreciate your saying this today.

Mr. TEAL. Perhaps there are some other slack areas in other programs too, that could get close scrutiny.

Mr. GEPHARDT. Thank you.

Mr. JOHNSTON. Mr. Teal, I am delighted you noticed this delinquency factor on the Farmers Home Administration loans, because that is a classic case of a good program gone awry. When they stopped making loans to farmers and put money into housing developments, those were the first ones to go broke. They took money from where it should have been, which is with the farmer. Those who are a major factor of the delinquency figures are not loans to farmers, but loans to businesses, or C. & I. loans, as they call them. It is another case of a good program gone awry. Thank you.

Mr. NELSON. Mr. Teal, thank you very much. We appreciate your testimony.

Our next sector that we are going to examine today is in the area of education. First, in the area of elementary and secondary education, we have Patti Phillips, president of the Classroom Teachers Association here in Orange County. She is an emerging and rising leader among teachers in the State of Florida. Ms. Phillips, we welcome you.

STATEMENT OF PATTI PHILLIPS, PRESIDENT, CLASSROOM TEACHERS ASSOCIATION, ORANGE COUNTY

Ms. PHILLIPS. Thank you.

My name is Patti Phillips, and I am vice president of the Florida Teaching Profession, NEA, and the president of our local association, the Orange County Classroom Teachers Association. I am also an elementary classroom teacher. The FTP-NEA represents 32,000 teachers in Florida while the Orange County CTA represents 3,050 teachers.

I would like to thank Congressman Nelson for the invitation to testify here today on the issue of Federal funding for education. I would also like to welcome Congressman Gephardt and Congressman Johnston to Orlando and Orange County.

The schools in Florida cannot afford the devastating cutbacks that have been proposed by President Reagan for fiscal year 1983. A survey by our national affiliate, the National Education Association, indicates Florida would lose $75.8 million to aid for crucial Federal elementary and secondary education programs over the next 2 years.

The proposed cuts come at a time when schools need more funding—not less—to provide adequate education for the State's 5 million students. The Federal Government should maintain its commitment to education if our Nation is to achieve educational opportunity for all Americans.

The president of the National Education Association, Willard McGuire, has testified before the House Budget Committee regarding the President's proposals. He explained how proven, successful programs such as title I is an effective program which works, benefiting the children for whom it was designed.

Yet, the Reagan administration proposes to cut the program from $3.5 billion available this school year to $1.9 billion in 1983-84. While currently title I funds reach only 5 million of the 11 million eligible children, NEA statistics estimate that an additional 2.3 million children would not be served under this budget. It is incredible that 8.3 million disadvantaged children will not receive these basic services. In addition, it is estimated that approximately 80,000 teachers and aides will lose their jobs. In Florida, 1983-84 title I funds would be cut by $35 million from the 1981-82 level. In Orange County that cut would be approximately $1 million.

Even though this massive cutback is proposed for 1983-84, 1982-83 will also show a significant decrease in title I funds. Estimated allocations for the 1982-83 school year reflect a reduction in title I funds of 6.8 percent in Florida and 6.3 percent in Orange County. Add to this the cost of inflation, and Florida will suffer a real decrease of 12 to 15 percent for 1982-83.

On July 1, 1982, title I will become chapter I of the new Education Consolidation and Improvement Act. As a teacher, it is not apparent to me how reducing basic services for disadvantaged children will result in educational improvement for those children.

Funding for chapter II of the Educational Consolidation and Improvement Act—the block grant program—is especially damaging to Orange County schools. In 1981-82, Florida school districts will receive $6.3 million less than in 1980-81. Under current recommendations, this funding will be reduced in addition $130,000 in 1982-83.

In Florida, vocational programs have been cut 4.2 percent, and adult education programs have been cut 13.6 percent under the continuing resolution for 1982-83. And there would be an additional $10 million cut under the Reagan proposed budget.

Even though Congress has wisely spared handicapped education from the knife, President Reagan would reduce funding for this program in Florida by $9.2 million over the 2-year period from fiscal year 1981 to fiscal year 1983.

Up to this point, I have mentioned many numbers which are probably meaningless unless you are interested in statistics or happen to be involved in the budgetary process, whether at the Federal level or at the local school district level. The significance of these numbers, however, is their impact on people. As an elementary classroom teacher, I have had firsthand experience with teaching disadvantaged students. Title I provides extra assistance for these children in the basic areas which are essential for their overall educational growth. With a better foundation, these children will have a better chance to succeed. Reducing programs, however, will provide fewer opportunities for the disadvantaged child.

Additionally, services and opportunities will be reduced for adult and vocational students.

Finally, teachers and aides will be added to the ever-increasing list of unemployed Americans.

I do not believe the Federal Government can expect or guarantee that the State and local school districts will absorb this loss in revenue. Even though the Florida Legislature just passed a long overdue 1-cent sales tax increase, it will not make up for this loss in Federal education funding.

The Federal Government must not shirk its responsibility in the education process. The State and local school districts bear the basic responsibilities, but the Federal Government should continue meeting the educational needs in many specialized areas. Our Nation's economy and national security are both highly dependent on the educational training of the citizenry.

Teachers, like most Americans, are concerned about the problems of our economy and especially the ever-increasing Federal deficit. However, we believe that the budget deficit can be reduced without sacrificing our future—America's youth. The NEA has proposed an alternate proposal that will reduce the Federal budget deficit by $39 billion while restoring the education funding. At the very least, Federal education appropriations for fiscal year 1983 should not be less than the continuing resolution for fiscal year 1982.

In summary, Federal education programs which are important and successful should not be reduced further. The Federal Government should not expect either the States or the local school district to bear the additional costs of those programs. While seeming to be just a cutback, this retrenchment in funding will be devastating to many of these programs. Those that are not eliminated entirely will serve less people and will be less effective.

Once again, I urge you to support programs which help children and teachers. Don't cut these programs any further. Thank you.

Mr. **Nelson**. Thank you for a very well prepared statement, Ms. Phillips. You have done a lot of research. Your testimony is witness to that fact. Indeed, we are quite interested in your statistics and numbers. Mr. Gephardt.

Mr. **Gephardt**. I thank you for your testimony. It was well given and well thought out.

I think every Member of Congress is worried about education and understands its significance for our future economic growth. I saw an article the other day that pointed out that if we are going to compete in the world of the eighties and nineties, we have got to somehow get our young people to be more educated with regard to science and mathematics, and certainly our competitors are doing that.

I think this is a tough, tough one to deal with. Obviously when you are cutting deficits, it has to be a fair approach. You have got to deal with every part of the budget. That is why education has taken its lumps along with everything else.

I just would ask one question that I asked of my educators in Missouri. We go round and round about it, but I would like to get your thoughts.

At the end of your testimony I note that you say that the Federal Government has in your view a responsibility—and I think the NEA has made this very clear—in specialized areas of education, and that of course is where the Federal Government has had its role in the last few years.

The President earlier this year put on the table a Federalism proposal which tried to assign a little better responsibilities for different areas of Federal Government to different levels of government. I wonder what you think about the idea of trying to do that, and if as part of that, let's say the Federal Government took over a greater share of the responsibility with regard to individual income maintenance, welfare, medicaid, programs like that, and thereby freed up the responsibility of the State and local governments for a lot of those programs? Do you think that it would be possible that State and local governments could take on the total responsibility for education, including these specialized areas—taking into account the fact that there would be a great swap that would go on, with responsibility coming to the Federal level, total responsibility, say for medicaid and AFDC, and a shifting back of programs like education?

Ms. PHILLIPS. I think that is all highly dependent on what the State and local governments are willing to do. A lot of the concepts of shifting the responsibility back to the State and local governments are not repugnant in any way if the State and local governments will take their responsibilities. We find that not to be the case in this State when it comes to education funding. We tax ourselves—most people probably don't think in those terms—but in this State we tax ourselves at a very, very, low level, and those taxes are the things that support the education programs.

We get into the State and desperately need the funding, because the State will not provide it in areas like handicapped education, and the disadvantaged children. I think that is why the push was there for Federal funding to begin with, and that is unfortunate, that the States are not taking their responsibilities, but they don't. If we just cut those funds back and the State doesn't pick up its share of the burden, then what we do is leave the children without the opportunities that they need.

So any of the shifting, if it depends on good faith on the part of the State to chip in its share of the revenue, that is the difficulty. You cannot guarantee that they are going to do that.

Mr. **Gephardt**. I hope we will consider closely those Federalism proposals, because I think the bottom thrust behind them is that we have got to try to make Government work better, and one of the ways to do that is to assign total responsibility for an area to one level of Government or the other.

I understand what you are saying about the inability of States in the past to do all that they should do. We have the same problem in Missouri. The State legislature has not always been willing to do the things that people want done. But that becomes a matter between our citizens and the State legislature. Maybe they have not done a good enough job in the past in expressing themselves. Our State legislature is now more representative than it used to be, due to redistricting and reapportionment. And maybe that would be helpful, too.

Well, I think we have to enter this debate and hopefully in the next year or two, make some decisions on this question.

Ms. **Phillips**. One of the programs, when you talk about the shifting, one of the things that always come to mind is the Federal impact aid, when by virtue of something that the Federal Government does with a Navy base, or a big Federal project, when that causes an additional burden on the local school system without those people being a continuing part of the community and generating tax dollars, then I believe that is something that you are not going to be able to shift, and that is definitely a Federal responsibility, and those impact aid funds are very important.

Mr. **Gephardt**. Thank you very much for being here.

Mr. **Nelson**. Interestingly, the impact aid funds were proposed to be kept. Impact aid category A covers cases like the Washington, D.C., suburban areas. Federal employees live in those suburbs. I would submit, however, that the economic impact is not nearly so much to those school systems in the suburbs of Washington, D.C., as it is in the type of impact that we find here in Florida where we have huge military installations taking that land off the tax roles. Yet the children of these Federal workers who live on-base and pay no taxes are being located in the school systems as a result of that Federal activity.

Thus it has always befuddled me that we have seen attempts by both Republican and Democratic administrations to cutback on impact aid B, and propose to keep impact aid A when the real need is in category B, as opposed to category A.

Mr. **Johnston**. I take exception to that, Mr. Chairman, because when a child is living in post housing as they do at, say, Fort Myers—and I don't include the children of Government civilian employees who are living in Fairfax County—but when a child is living in post housing at Fort Bragg, N.C., there is no corresponding tax base for the school system for his parents' residence, where in the case of people living off post, presumably they are paying property taxes. So the maintenance of A makes sense from a recent standpoint.

Ms. **Phillips**. We do urge you to maintain A and B.

Mr. **Johnston**. I found the NEA would like us to maintain everything. Why should the Federal Government be in the business of funding elementary and secondary education?

Ms. **Phillips**. Because somebody better be in the business of funding education of our children.

Mr. **Johnston**. I agree with that. But are dollars more efficient because they come from Washington?

Ms. **Phillips**. No, but you are the people that control the dollars coming from Washington.

Mr. **Johnston**. Your State legislature can't control its own tax budget?

Ms. **Phillips**. No, I am saying this to you. I have the same message for the Florida State Legislature.

Mr. **Johnston**. Should my people in North Carolina, who pay taxes, as well as property taxes, sales taxes, have their income tax money go to subsidize the schools in the State of Florida which has no income tax?

Ms. **Phillips**. I think that an educational dollar, no matter where it is spent, in effect benefits the Nation in general.

Mr. **Johnston**. I understand, but those dollars have to come from somebody. Somebody has to produce them before Washington redistributes them.

Ms. **Phillips**. I understand that. The same argument you could apply to why should I pay taxes, why should any of my tax money go into education? I don't have any children, and I believe that it is everybody's responsibility to provide the funding that is necessary to educate our future generations.

Mr. **Johnston**. Well, that is a noble goal. It hits some people particularly in the pocketbook. Why do schools need more funding when the number of school age children is declining?

Ms. **Phillips**. Not in this State.

Mr. **Johnston**. We are talking about overall, about the Federal budget.

Ms. **Phillips**. As you have expanded the need for different areas of education——

Mr. **Johnston**. We have not; you have.

Ms. **Phillips**. The public has. If I may—when it became necessary, or when the school system started taking their responsibilities toward educating the handicapped and toward educating the disadvantaged, which they did not do when I was in school, and probably didn't do when you were in school, that caused an increasing need for people there to deliver the services. Obviously a teacher in a classroom with 35 students cannot provide what a handicapped student needs in that classroom. That has caused an increased need, and it will continue, for educational funding. Now, I think it is time that somebody took the responsibility for educating the handicapped and the disadvantaged. But it is going to cost more money.

Mr. **Johnston**. To what extent can we invest in a handicapped person? I mean, would you care to put a dollar limit on it? Should we invest in a handicapped person what it would cost us to send someone to Harvard, shall we say?

Ms. **Phillips**. I think if you want a productive person that can live and work in our society, it is incumbent upon us to provide them with an educational opportunity that will allow them to function.

Mr. **Johnston**. After we have spent more and more dollars, have the SAT scores declined for the last 10 years?

Ms. **Phillips**. Before I answer the question, let me ask you what you think the purpose of education should be. If it is to produce a good score on a SAT, then somebody ought to tell the teachers that, because if that is all you care about, I will guarantee you we will raise the SAT scores.

Mr. **Johnston**. The trained and disciplined mind that can write and spell the English language would certainly be a reasonable goal for the educational establishment.

Ms. **Phillips**. Is that the only thing you want a child to do, is pass a SAT?

Mr. **Johnston**. As a former college professor, I would like to have one that can at least spell and write the English language.

Ms. **Phillips**. Is that the only thing you want us to do?

Mr. **Johnston**. What percentage of the school budget in your district is salaries of classroom teachers as opposed to counselors, administrators, advisers, aides, special programs, coaches, et cetera?

Ms. **Phillips**. I believe overall in the district, the overall percentage that went to everybody's salaries is probably around 80 percent, and I think that is normal. That is overall salaries. The percent of that overall budget that goes for teachers salaries is probably about, I would say, close to 40 percent.

Mr. **Johnston**. It has been between 30 and 40 percent nationally of the moneys actually going to the people who teach as opposed to others.

Why is NEA lobbying to have Martin Luther King's birthday made a national holiday?

Ms. **Phillips**. Martin Luther King is someone we certainly respect and that we think has had a tremendous impact on this Nation.

Mr. **Johnston**. But don't you think another national holiday would be inflationary?

Ms. **Phillips**. In what way is that?

Mr. **Johnston**. Paying people for work not performed is generally considered inflationary.

Ms. **Phillips**. You are talking about Federal employees?

Mr. **Johnston**. I am talking about anybody. A national holiday would presumably affect everybody.

Ms. **Phillips**. I wish you would tell our school district that. National holidays—whether or not a worker gets a national holiday off, is normally the subject of discussion between the employer and employee. If you are letting Federal employees off on any national holiday, that is something you ought to deal with.

Mr. **Johnston**. I was just wondering why the NEA was lobbying for letting our employees off.

Ms. **Phillips**. If you are concerned about that, then you probably have to control it.

Mr. **Johnston**. I was just wondering why your organization was pushing us to give our employees another day off.

Ms. **Phillips**. I don't think that the purpose of that is to give the employees another day off. Most teachers are not Federal employees. So the NEA's motive for another paid holiday is not going to benefit us—if you think the only motive is to have everybody have another day off. The purpose is to honor someone. The effect that it would have on employees—you are implying that as the motive—and I don't believe that is the motive. The motive is to honor someone.

Mr. JOHNSTON. My question to you was, Wouldn't you consider that to be inflationary, to pay 3 million Federal workers another day's pay for work not performed—would you consider that inflationary? Have you studied economics?

Ms. PHILLIPS. No; not to the extent that I can sit there and look at what kind of impact a paid holiday has.

Mr. JOHNSTON. How would you reduce Federal spending?

Ms. PHILLIPS. Have you looked at the NEA proposal to you?

Mr. JOHNSTON. I have scanned it; yes, along with the other material. But how would you produce it?

Ms. PHILLIPS. I think that the suggestion in here is a good suggestion, that you ought to consider.

Mr. JOHNSTON. Thank you.

Mr. NELSON. Ms. Phillips, we appreciate you presenting very thoughtful testimony and also being so well prepared to respond to these very searching questions from Mr. Johnston. Thank you.

Continuing with our panel on education, we now move to the area of postsecondary education. I would like to welcome Dr. Trevor Colbourn, president of the University of Central Florida. Thank you for being with us.

STATEMENT OF TREVOR COLBOURN, PRESIDENT, UNIVERSITY OF CENTRAL FLORIDA

Dr. COLBOURN. Gentlemen, thank you for the opportunity to testify before you this morning on the impact of the Federal budget upon postsecondary education.

My remarks may seem unduly brief and general. I hope you will not conclude that either aspect suggests I do not take your invitation seriously or that you will think the implications of Federal cutbacks on financial assistance to college and university students are anything less than a matter of grave concern. But I am well aware of the extensive hearings that have already taken place and the significant, indeed alarming, figures that have been provided you with regard to the consequences for our students.

For example, we can only view with deep dismay the abrupt reduction in funding proposed for the work-study program; a cutback of 24 percent in a program which has helped students and universities alike is indeed extraordinary. For example, the prospective reduction of graduate student enrollment by a factor of 50 percent as a consequence of denying such students the benefits of the guaranteed student loan program, raises grave questions about our priorities and particularly, our national security.

For example, the termination of NSF programs in the sciences and engineering could well jeopardize our future economic wellbeing as well as our technological strength as we seek to enhance our defense posture. The list is surely as familiar as it is puzzling.

At a time when we hear renewed concern for our national security, it is hard to understand why we face budget proposals which would reduce the human resources needed to support that concern.

Just as it is hard to understand why Pell grants should be reduced at a time when college costs are rising so rapidly. I thought this country had a longstanding commitment to educational opportunity; I hope we still do.

What would be the consequences, local and national, of major cuts in student financial aid? Obviously many qualified students would be denied a college or university education. They would be thrust upon an already overburdened labor market prematurely and lacking the skills and training they might otherwise have acquired, reducing the contribution they would make to the economy and Federal revenues.

In view of the continuing growth of central Florida, despite the recession, I doubt if enrollment at the University of Central Florida would decline significantly. Our ability to meet the needs of the defense industries in the area would be reduced, as would our ability to respond to the needs of other high technology businesses in our area. Since there is a national shortage of engineers and computer scientists, a serious problem would become still more serious.

UCF has, in company with all State universities in Florida this past year, experienced an increase in tuition costs; we have also been forced to sharply increase dormitory rents and food charges. The timing of a reduction in student aid could not come at a worse time for our students.

But our costs are still lower than most private colleges and universities, whose increases seem to be averaging 15 percent. One consequence of student aid cuts will be an enrollment crisis for private postsecondary institutions whose students at best may seek to enter public universities as an alternative. I think postsecondary education in the United States has long benefited from the mix of private and public institutions of higher learning; we would lose a great deal were that diversity to be reduced sharply.

I do appreciate the complexity of your task. We are facing a major economic crisis, perhaps our most serious since World War II. Clearly we have to reduce Federal expenditures and increase Federal revenues. Cuts in Federal funding are unavoidable. But there has to be a sense of reasonable priorities, a sense of history, if I may relate to my own academic field of study.

From its very inception this Nation has proclaimed a commitment to education. In 1787 we began the pattern of Federal support for education, a pattern sustained by Democratic and Republican administrations alike. One of the landmarks was surely the National Defense Education Act, passed during the Presidency of the late Dwight David Eisenhower.

In 1982, we see proposals which could reverse nearly 200 years of history, proposals which may be well intended but are surely misconceived. Cuts I can easily understand in our present circumstances, but they should be equitable, not seemingly discriminatory.

I have heard it argued that the Federal Government should remove itself from all involvement in and support for education over the next several years. Why? What would be the consequences? Can the States fill the vacuum? I think not.

In yesterday's Orlando Sentinel there was a disturbing article which reviewed the kind of increases that are now taking place in college and university tuition charges across the Nation. In the State of Washington costs may increase by 50 percent. In Minnesota students may have to pay as much as 60 percent of the cost of instruction in a public university; and there is already talk of further increases in Florida. Each and every State in the Union is variably impacted by the recession, and in each and every State, education is, to varying degrees, adversely affected.

Why should a student in Texas or Louisiana be so much more advantaged than a student in Wisconsin or Virginia? What does this say about educational opportunity on a national scale? I must submit there is only one way that equitable educational opportunity can be furnished and that is by Federal action of a positive and comprehensive sort.

Yes, there have been abuses in the present Federal funding of education. But they are abuses that can be and should be corrected. Students should not be made the victims of flawed legislation. And that is the present threat. We all know the horror stories—of parents who have taken subsidized low interest guaranteed student loans and used the money to acquire high interest certificates of deposit—of students who were far from serious or qualified. But a nation able to put a man on the Moon surely can find ways to write legislation which sustains opportunity for those students who should have it and denies funding for those who should not.

I submit that this is a Nation which has the means and the capacity to sustain its commitment to democracy, to equality of opportunity. This is a Nation for which the ideals of Thomas Jefferson are as vital today as they were 200 years ago. If we fail to preserve the legacy of our past, we will not deserve to have a future—and it is our future which is in jeopardy today.

Mr. NELSON. Thank you, Mr. President. If you would now have a seat, I would like to get the testimony of all of this panel before we start questions.

The next members of our postsecondary education panel, Dr. Barry Fullerton and Jack Hughes, are from the Florida Institute of Technology, one of our private universities in the area. Following them will be Dr. William Loving, director of student aid at Rollins College, here in Winter Park, another of our private institutions.

STATEMENT OF BARRY FULLERTON, VICE PRESIDENT FOR STUDENT AFFAIRS, FLORIDA INSTITUTE OF TECHNOLOGY, ACCOMPANIED BY JACK D. HUGHES, COORDINATOR, STUDENT FINANCIAL AID

Dr. FULLERTON. Good morning. Mr. Hughes has most of the details, statistics and numbers. My comments are more off the cuff and philosophical, if you will.

First, I might say that I do find myself in almost complete agreement with President Colbourn regarding the consequences of certain cuts in the financial aid program. Of course, as one who works at a private institution, and one who has worked at private institutions all of his career in private education—some 17 years—I think it is a fact that the private institutions would be hurt more than the public institutions. Perhaps our institution less than others, because of its nature, in that we specialize in science and engineering, and certainly that is a hot commodity these days in terms of youngsters seeking higher education.

But we are still reasonably a high-priced institution. Tuition, room and board for a youngster at FIT will run close to $7,000 next year. It would run as high as $12,000 if he were pursuing a program in flight. Even at $7,000, we find ourselves somewhat cheap compared to some of the Eastern and Midwestern schools.

So I am concerned about the effect that the cuts would have on private schools. Certainly there would be a trickle-down effect, compaction of students in the public institutions if too many were forced out of the private schools.

Something I think that is overlooked by a number of people is the experience the youngsters have at small private schools is markedly different in the experience they have at large public institutions. I went to large public institutions—Michigan State and Penn State. I survived rather well. My wife went to a small school—Marietta College in Ohio. She could not have been happy at a large institution.

So that the schools I am concerned with are the small, essentially private schools that offer I think a rather unique educational experience in a lot of ways, and it would be unfortunate if these schools were hurt.

It would also be unfortunate that a number of youngsters would be forced out of the public institutions, because if there is a serious reduction in the number of students going to private schools, they will go to school somewhere, and I am afraid what would happen, it would force perhaps some of the lesser qualified or less able youngsters out of the public institutions, both 4-year institutions and community colleges as well.

I am also concerned as a parent of two prospective college students who may choose not to go to FIT, which will cause a serious financial strain in our family. I know people say if you make more than $35,000, you should be able to put your children through school. Yes, you should. However, $35,000 simply is not that much money these days. My wife went back to teaching last year for the first time in 16 years. The net result is that it costs us money, when you look at the increased taxes we had to pay, the clothing, the travel to and from, and so forth. It is almost better to have her not work, which is unfortunate.

Basically, I guess I could say a lot. I really would rather have Mr. Hughes go through the numbers and statistically show you the consequences of some of these cuts.

I will say also I am in sympathy with your plight as Congressmen. I think the budget is too big. I think there are too many programs that need not exist. I hope I am not stepping on the NEA's toes, but in response to Congressman Johnston's question, I know in Brevard County, 128 schoolteachers are not being rehired next year because of the drop in enrollment. I also noticed no administrators got a similar fate, however.

I see a lot of room for improvement in the organization of all institutions, public and private, possibly secondary, elementary, and so forth, as we become not terribly cost effective in a number of ways.

I think the private schools have done a better job because they have had to. I look at my colleagues in public institutions doing jobs that I never knew existed. The cuts certainly are necessary. I just hate to see kids get hurt. Certainly I think in the kind of country we have where there is a will, there is a way, and when people are forced to the wall, they figure out the way to get what they want.

I think the long-term solution is to cut back a lot of these programs. I just hate to see us get cut off at the knees right now. It is a tremendous shock to a lot of people. We ask people to plan ahead, and when they do, sometimes it doesn't pay off, such as having the financial aid program expectations removed rather abruptly. That is what I am opposed to, is the abrupt cutoff.

Some programs I think are more suspect than others. The work-study program I am a firm believer in. I worked my way through school. I think a lot of people worked their way through school.

Loans, with proper safeguards, I think are appropriate ways of doing business. The return rate in Florida, the payback in Florida, has been probably one of the best in the United States. Grant programs I think are difficult to administer. One of the reasons is I think there are an awful lot of people going to school today who are poorly prepared, who may be going to school only because the grant is there.

I would commend to all of you Derrick Boggs' comments that appeared in the Chronicle of Higher Education last week. He was commenting to the board of trustees at Harvard about the implications of the cuts. He made some interesting suggestions about how financial aid public policy might be constructed to deal with the problems.

I certainly would not want to be in your position, because I know it is a difficult position, but I do also know and realize that the programs need some surgery.

Mr. Nelson. All right. Mr. Hughes, if you have some statistics, I would ask you to submit them for the record, and then summarize briefly, if you will.

STATEMENT OF JACK D. HUGHES

Mr. Hughes. I am very much aware this is the first time this committee has appeared in Florida. We really appreciate your being here.

I am also very concerned about the time that we have. I think it is quite unfortunate, because I have a lot to say.

Mr. Nelson. I am going to have to keep this on schedule. So if you will, please summarize.

Mr. Hughes. Basically, what I have said here in the statistics you are looking at shows a decrease, especially a significant decrease starting this year. I was unable to award any campus-based aid to any of my returning students that had at least a $4,000 need. Every student on my campus that had at least a $4,000 need, I could not offer them a work-study job, for example. I did not have any campus-based aid at all for any incoming students, freshmen incoming students.

Now, I deal with the "succotashes" every day. I have been on the phone every 5 minutes with mothers and fathers throughout the country for the last 4 weeks. I have been in the business 8 years and this is the first time it is really devastating, and I think that I said to you there are ways that you can do something about that.

One of the major ways that I believe you can do something about it is to do something about the rules and regulations and the paperwork. If that doesn't cost you any money and you can do that—I have been to eight national conferences, and the bureaucrats got up there and told us every time they were going to simplify something. It came out not simplified, but complicated. It was a lot more complicated than before, and that has happened every year.

I think what you really need to do is if you could appoint practicing student aid officers, a small group of guys that face students every day, not the guys that sit in big ivory towers someplace, but the people that have to deal with this every day, if you would do that, to oversee and look at that bureau up there, I am telling you it would help a lot of kids.

I appreciate the opportunity to speak before you.

[The prepared statement of Mr. Hughes follows:]

Prepared Statement of Jack D. Hughes

There are myths concerning Financial Aid. Many times it is said that it is a "free ride." One area of the myth has to do with student loans.

According to a recent report in Higher Education and National Affairs, "There has been media coverage of improprieties in Federal Student Aid programs. These reports have told of defaults on student loans...but these defaults are not the norm. The overwhelming majority of students repay these loans on time...The National Direct Student Loan default rate dropped in one year from 17.3% in 1977-78 to 11.9% in 1978-79." Furthermore, according to this same report, "Over a lifetime, the difference in earnings of the college graduate, as compared with the high school graduate, results in the college graduate paying in taxes more than six times the financial aid he/she received."

It is my belief that this same relationship of responsibility and success can be achieved with the Federal Work Study Program by making the following changes:

1. Allow students to work on a job in the private sector which directly relates to their major course of study.
2. Consideration of allocation of funds for Work Study Programs should not be determined according to the number of high school graduates; number of low-income families; or number of students enrolled in post-secondary education within the state. The system should award funds according to the number of student applicants with documented need within each individual institution.

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3, The present system allocates work study funds to institutions on a yearly basis. This system should be amended to provide for a possible re-allocation of funds, based on quarterly utilization percentage.

The delivery of financial assistance to students is thwarted by an over-abundance of rules and regulations. This is further complicated by frequent changes, These circumstances directly affect the students ability to successfully achieve his/her educational goals, This avalanche of paper begins to cause student aid officers to see students as interruptions to their need to handle paper, rather than providing service to the student.

I strongly urge Congress to establish an Advisory Council of practicing financial aid officers in an effort to correct this situation.

1. Campus Based Financial Aid has been reduced by 21% from 79-80 to 82-83.
2. 73% of the enrolled Financial Aid applicants, with a demonstrated need, were denied campus based financial aid for 82-83, due to insufficient funds.
3. 100% of the incoming financial aid applicants, with a demonstrated need, were denied campus based financial aid for 82-83 due to insufficient funds.

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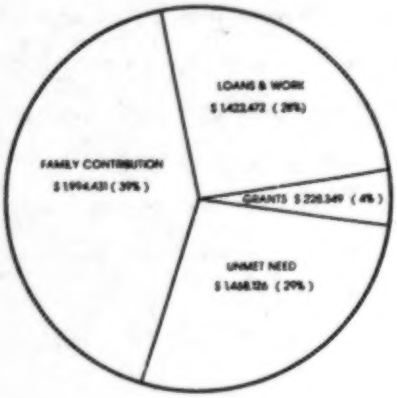
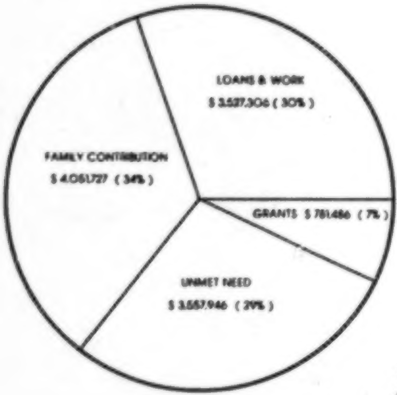
FLORIDA INSTITUTE OF TECHNOLOGY
STUDENT FINANCIAL AID FOR 82-83

Total cost for incoming financial aid applicants: $ 5,113,378
Total incoming financial aid applicants: 576



FLORIDA INSTITUTE OF TECHNOLOGY
STUDENT FINANCIAL AID FOR 82-83

Total cost for enrolled financial aid applicants: $ 11,918,465
Total enrolled financial aid applicants: 1,333



Submitted by Jack D. Hughes
Coordinator Student Financial Aid
May 14, 1982

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Mr. **Nelson**. Thank you, Mr. Hughes.

Dr. Loving, director of student aid at Rollings College. We tried to design this panel so we could get a cross-section of opinion.

STATEMENT OF WILLIAM LOVING, JR., DIRECTOR OF STUDENT AID, ROLLINS COLLEGE, WINTER PARK, FLA.

Dr. **Loving**. With the National Defense Education Act in 1958, postsecondary education in America appeared to be a favored child of governmental generosity. The relation began with President Eisenhower's smile and continued to grow as colleges became the beneficiary of grandiose largess peaking with the Middle Income Student Assistance Act of 1978. In these 20 years higher education grew enormously, educational opportunities for low income and minority students exploded. Colleges, public and private, increased in quantity and quality. Few requests were not honored.

Within an 18-month period, a radical transformation in the relationship of Government to higher education has occurred leading many faculty, administrators, and students to feel like unwanted stepchildren of an uncaring Government.

This simplistic summary, however, takes no account of changes in student population, a growing work force, rampant inflation, and exploding Federal deficits. American education does not and should not live in a vacuum. Both Congress and higher education have had to come to grips with some hard, unpleasant realities in the past 18 months. The Federal pot of gold is not limitless. What is unhealthy for Government is unhealthy for education. There is no question that belts must be tightened in the groves of academe as well as on the banks of the Potomac. The question is: How do we accomplish this without serious damage to students as well as to the Nation itself? At what hole in the belt is circulation cut off and the life process threatened?

To realistically examine the effect of the current economic conditions on higher education, we must examine some of the particularities of the economics of higher education itself, and, from my perspective, private higher education.

The high interest rates of the past few years are simply a component of inflation. These interest rates have created immediate as well as long-term problems. Private colleges raise funds from student fees, endowment income, auxiliary services, alumni, industry, foundations, direct and indirect Federal and State aid, and private contributors. In addition, public colleges have resources from the taxpayers of the State.

Endowment funds normally are placed in secure, long-term investments. There is little flexibility for short-term manipulation. As a result, many colleges now hold long-term bonds paying interest rates bearing no relation to contemporary realities. College endowment funds are taking a terrific beating. New funds raised by colleges must now be channeled into day-to-day operational expenses just to keep schools running. In a different economy these funds would be placed in long-term investments. Colleges are being forced to use development funds to play catchup and this portends serious problems just down the road. With fewer dollars going into endowment, financial institutions have less to lend homebuilders, businesses, and industry, raising interest rates further. We are all involved in that spiral effect.

It is important to remember that colleges are a consumer industry. For some of us in private education it would be difficult to become more cost effective without doing injury to the quality of education. Inflationary costs must be passed on. In the private sector the only place to pass them is to the consumer, that is, the student and parents. In the public sector the majority of costs are passed on to the State and its taxpayers. Florida has made deliberate decisions to keep State tuition low and has experienced only small tuition increases over the past 10 years. This is, in effect, a very real form of student aid. In private colleges, however, we face the question of how much and for how long can we pass the cost of inflation on to students and parents.

Today, even the more affluent parents are being forced to invest in assets that are less liquid than in previous years. A growing number of families have available only the return, not the principal, for discretionary spending. Some of the new tax benefits such as IRA allowances may be offset by the illiquidity of these funds for parents of college-age students. Some aid officers, myself included, feel the Middle Income Student Assistance Act of 1978 may have contributed to this inflationary spiral, encouraging large numbers of students to borrow funds though they had no need. Meanwhile, the Federal Government was having to pay upward of 20 percent to lenders on loans that were not needed for the student to stay in school. A needs test and/or reasonable income cap for student loans was needed and appropriate.

The most serious problem facing students planning to attend college in 1982 and beyond is the question of choice. With the continued decrease of Federal assistance and higher costs projected for future years, students with genuine need may no longer be able to make a choice of college solely on educational grounds. This could have a most destructive impact on higher education in this Nation.

A student with high need can probably have that need met by attending a community college and living at home. A Pell grant coupled with work or loan should cover that cost. Students wishing to attend State universities in his or her home State may find funding a little more difficult, but a package of aid containing grant, loan, and work should see them through if they are careful planners. But the student who has need and chooses to attend a private college or a State school in another State may no longer be able to make that choice, and it has been the availability of choice that has strengthened American higher education over the past several decades. The removal of choice will have a deleterious effect on both the public and private sectors and anything that weakens our dual educational system in this country will ultimately weaken the Nation at large. We cannot afford, as a people, to provide less than the very best education possible for each individual student at the maximum of his or her own ability.

It is clear that unlimited student aid funds are no longer forthcoming from Washington. Events of the past few months also indicate many Members of Congress feel student financial aid has tightened its belt about as far as it can. If additional funds are to be saved and if waste, fraud, and abuse are to be limited, there must be a reordering of priorities in the use of these funds. Current regulations and aid programs were largely structured when funding was growing. Budget reductions without restructuring the programs may harm many students. A reordering of priorities and standards, however, can avoid harm to students and possibly improve the programs.

Toward that end I would submit for your serious consideration some areas where, in my opinion, change can save dollars, reduce waste, and minimize fraud and abuse.

One: Target all aid programs exclusively to students with proven need. Tax credits, loan subsidies, and other benefits for students without need are items we cannot afford in our current economic state.

Two: The Government should provide a clear, realistic definition of the self-supporting student. Far too many parents are shirking their responsibilities for educating their dependents. Most private colleges have far tighter rules about this matter than the Federal Government. One State requires proof of self-support for 3 years prior to eligibility for State aid. Many colleges require 5 years of established self-support. Current Federal regulations are not only unrealistic but require little or no hard evidence.

Three: Only in the past few years have proprietary schools been eligible to receive Federal student aid. Since proprietary schools are profitmaking businesses, is it really appropriate that they receive Federal aid dollars? Is this not analogous to loans for Lockheed and Chrysler?

Four: Sufficient funding should be restored for regional offices of the Department of Education to resume reviews of aid programs in colleges. Cutting funds for this procedure is a false economy and opens doors to waste and abuse. Add to this procedure a clear standard to evalute aid management. Use this standard as a rewarding process to schools who manage funds well and reduce funding where management is less than satisfactory or loan defaults are high.

Five: Until the early 1970's the only students eligible for aid were those enrolled in full-time programs. As more funds became available students enrolled half time became eligible. Now that funding is being reduced we should consider levels of priority. For example, should funding fall below a certain level, only full-time students could receive Federal aid. If funding were increased, other students could come into the programs.

Six: While improvements are being made in the validation of financial data, Congress should consider additional systems to better validate this data. A few years ago Rollins College began requiring 1040's on every student receiving need-based aid. In the first year we found 35 percent of the applicants' families had actual incomes of $1,000 or more than the amount stated on the needs-analysis document. We further discovered that 15 percent had incomes of $5,000 or more than stated on the forms. We discovered discrepancies in the number of dependents, asset income, and other investments. If every college had this requirement and followed up on the information, we might find current funding sufficient. At Rollins we feel it is important not only to protect our own funds, but also funds made available by the taxpayers of our country.

Seven: If interest rates remain high, the cost of the guaranteed student loan program will remain high. A few years ago HEW sponsored a study of student loans. They found the national direct student loan was the most efficient and effective loan program available. This should be reexamined by Congress. Increased funding here would insure that students with real need can have that need met and the long-range cost would be less than that of the guaranteed programs.

Eight: Some colleges choose to offer all Federal programs except the national direct student loan. But the Federal formula for allocating funds seeks to meet the need of the school regardless of the programs used. This means, for instance, college A may need $2 million and this is met through grant and work funds only. College B also needs $2 million but participates in the national direct loan. Students at college B may have to borrow, work, and receive grants while the needs of students at college A are met through grants and work alone. Colleges should take the entire balanced package in fairness to all students.

Nine: High standards for "satisfactory progress" should be established by the Federal Government. Aid offices do not always receive support from other areas of their college to implement realistic standards. This is one area where abuse and waste exist and many colleges have not solved the problem although they have had several years in which to do it.

Ten: The "entitlement" nature of the Pell grant should be reexamined. Under current law a student entitled to a Pell grant may receive it even though his or her need is exceeded from other sources. The entitlement portion of the grant should be limited to unmet need. This could save several million dollars in one year alone. This concept of entitlement as currently defined creates additional problems. Congress demands we insure that loans are repaid. Yet we are not allowed to withhold a Pell grant even if the student is in default on a loan at another school, has unpaid bills, or refuses to provide a 1040. This prevents colleges from being responsible stewards of Federal dollars.

We are facing critical times but with sound and positive ideas, a commitment to strong higher education, and determination to resolve our national economic dilemma, we cannot only meet that challenge but find fresh, creative, and better ways in which to do it. New priorities and regulations designed for a new time are a necessity. Aid offices and students alike can adjust to living with reductions only if sounder, more realistic principles of administration are legislated. This is not a time for us to pout or whine but to add positive ideas toward solving our national problems together. Thank you.

[Testimony resumes on p. 31.]

[The prepared statement of Dr. Loving follows:]

PREPARED STATEMENT OF DR. WILLIAM LOVING, JR.

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The high interest rates of the past few years are simply a component of inflation. These interest rates have created immediate as well as long term problems. Private colleges raise funds from student fees, endowment income, auxilliary services, alumni, industry, foundations, direct and indirect federal and state aid, and private contributors. In addition, public colleges have resources from the tax payers of the state.

Endowment funds normally are placed in secure, long-term investments. There is little flexibility for short-term manipulation. As a result, many colleges now hold long-term bonds paying interest rates bearing no relation to contemporary realities. College endowment funds are taking a terrific beating. New funds raised by colleges must now be channeled into day-to-day operational expenses just to keep schools running. In a different economy these funds would be placed in long-term investments. Colleges are being forced to use development funds to play "catch-up" and this portends serious problems just down the road. With fewer dollars going into endowment, financial institutions have less to lend home builders, businesses and industry, raising interest rates further. We are all involved in that spiral effect.

It is important to remember that colleges are a consumer industry. For some of us in private education it would be difficult to become more cost-effective without doing injury to the quality of education. Inflationary costs must be passed on. In the private sector the only place to pass them is to the consumer, i.e., the student and parents. In the public sector the majority of costs are passed on to the state and its taxpayers. Florida has made deliberate decisions to keep state tuition low and has experienced *only small tuition increases over the past ten years. This is, in effect, a very real form of student aid. In private colleges, however, we face the question of how much and for how long can we pass the cost of inflation on to students and parents.*

Today, even the more affluent parents are being forced to invest in assests that are less liquid than in previous years. A growing number of families have available only the return, not the principal, for discretionary spending. Some of the new tax benefits such as IRA allowances may be offset by the illiquidity of these funds for parents of college-age students. Some aid officers, myself included, feel the Middle Income Student Assistance Act of 1978 may have contributed to this inflationary spiral, encouraging large numbers of students to borrow funds though they had no need. Meanwhile, the federal government was having to pay upward of 20% to lenders on loans that were not needed for the student to stay in school. A needs test and/or reasonable income cap for student loans was needed and appropriate.

The most serious problem facing students planning to attend college in 1982 and beyond is the question of choice. With the continued decrease of federal assistance and higher costs projected for future years, students with genuine need may no longer be able to make a choice of colleges solely on educational grounds. This could have a most destructive impact on higher education in this nation.

A student with high need can probably have that need met by attending a community college and living at home. A Pell Grant coupled with work or loan should cover that cost. Students wishing to attend state universities in his or her home state may find funding a little more difficult, but a package of aid containing grant, loan, and work should see them through if they are careful planners. But the student who has need and chooses to attend a private college or a state school in another state may no longer be able to make that choice, and it has been the availability of choice that has strengthened American higher education over the past several decades. The removal of choice will have a deleterious effect on both the public and private sectors and anything that weakens our dual educational system in this country will ultimately weaken the nation at large. We cannot afford, as a people, to provide less than the very best education possible for each individual student at the maximum of his or her own ability.

It is clear that unlimited student aid funds are no longer forthcoming from Washington. Events of the past few months also indicate many members of congress feel student financial aid has tightened its belt about as far as it can. If additional funds are to be saved and if waste, fraud, and abuse are to be limited, there must be a reordering of priorities in the use of these funds. Current regulations and aid programs were largely structured when funding was growing. Budget reductions without restructuring the programs may harm many students. A reordering of priorities and standards, however, can avoid harm to students and possibly improve the programs.

Toward that end I would submit for your serious consideration some areas where, in my opinion, changes can save dollars, reduce waste, and minimize fraud and abuse.

1. Target all aid programs exclusively to students with proven need. Tax credits, loan subsidies, and other benefits for students without need are items we cannot afford in our current economic state.

2. The government should provide a clear, realistic definition of the "self-supporting" student. Far too many parents are shirking their responsibilities for educating their dependents. Most private colleges have far tighter rules about this matter than the federal government. One state

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requires proof of self-support for three years prior to eligibility for state aid. Many colleges require five years of established self-support. Current federal regulations are not only unrealistic but require little or no hard evidence.

3. Only in the past few years have proprietary schools been eligible to receive federal student aid. Since proprietary schools are profit making businesses, is it really appropriate that they receive federal aid dollars? Is this not analogous to loans for Lockheed and Chrysler?

4. Sufficient funding should be restored for regional offices of the Department of Education to resume reviews of aid programs in colleges. Cutting funds for this procedure is a false economy and opens doors to waste and abuse. Add to this procedure a clear standard to evaluate aid management. Use this standard as a rewarding process to schools who manage funds well and reduce funding where management is less than satisfactory or loan defaults are high.

5. Until the early 1970s the only students eligible for aid were those enrolled in full-time programs. As more funds became available students enrolled half-time became eligible. Now that funding is being reduced we should consider levels of priority. For example, should funding fall below a certain level, only full-time students could receive federal aid. If funding were increased, other students could come into the programs.

6. While improvements are being made in the validation of financial data, Congress should consider additional systems to better validate this data. A few years ago Rollins College began requiring 1040s on every student receiving need-based aid. In the first year we found 35% of the applicants' families had actual incomes of $1,000 or more than the amount stated on the needs-analysis document. We further discovered that 15% had incomes of $5,000 or more than stated on the forms. We discovered discrepancies in the number of dependents, asset income, and other investments. If every college had this requirement and followed up on the information, we might find current funding sufficient. At Rollins we feel it is important not only to protect our own funds, but also funds made available by the taxpayers of our country.

7. If interest rates remain high, the cost of the Guaranteed Student Loan Program will remain high. A few years ago HEW sponsored a study of student loans. They found the National Direct Student Loan was the most efficient and effective loan program available. This should be reexamined by Congress. Increased funding here would ensure that students with real need can have that need met and the long range cost would be less than that of the Guaranteed programs.

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8. Some colleges choose to offer all federal programs except the National Direct Student Loan. But the federal formula for allocating funds seeks to meet the need of the school regardless of the programs used. This means, for instance, College "A" may need $2 million and this is met through grant and work funds only. College "B" also needs $2 million but participates in the National Direct Loan. Students at College "B" may have to borrow, work, and receive grants while the needs of students at College "A" are met through grants and work alone. Colleges should take the entire, balanced package in fairness to all students.

9. High standards for "satisfactory progress" should be established by the federal government. Aid offices do not always receive support from other areas of their college to implement realistic standards. This is one area where abuse and waste exist and many colleges have not solved the problem although they have had several years in which to do it.

10. The "entitlement" nature of the Pell Grant should be reexamined. Under current law a student entitled to a Pell Grant may receive it even though his or her need is exceeded from other sources. The entitlement portion of the grant should be limited to unmet need. This could save several million dollars in one year alone. This concept of entitlement as currently defined creates additional problems. Congress demands we ensure that loans are repaid. Yet we are not allowed to withhold a Pell Grant even if the student is in default on a loan at another school, has unpaid bills, or refuses to provide a 1040. This prevents colleges from being responsible stewards of federal dollars.

We are facing critical times but with sound and positive ideas, a commitment to strong higher education, and determination to resolve our national economic dilemma, we can not only meet that challenge but find fresh, creative and better ways in which to do it. New priorities and regulations designed for a new time are a necessity. Aid officers and students alike can adjust to living with reductions only if sounder, more realistic principles of administration are legislated. This is not a time for us to pout or whine but to add positive ideas toward solving our national problems together.

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Mr. Nelson. Thank you for some very constructive thoughts. Personally, I am going to forward this to the people in the Department of Education that administer these programs. Thank you, Dr. Loving.

Are there any questions from members?

Mr. Johnston. I might make a couple of comments.

I think Dr. Fullerton, Dr. Loving, and Mr. Hughes have certainly done a splendid job of summarizing some of the problems. I would like to run by the idea—and I say this as someone who went to private schools, who has four boys in college, three in private schools and one in State-supported education—I am all too acutely aware of the differences in the various costs. Don't you think perhaps we ought to have a two-tier system of funds at level 1 for those institutions supported by the tax moneys and those that are not? Dr. Colbourn, will you respond to that, too.

I point this out. In North Carolina I am free to support or not support my alma maters, Duke or Wake Forest, but they put me in jail if I don't support the University of North Carolina.

Dr. Colbourn. There is a limit to how far I would want to go in support of the private sector, important as it is. I think we need to remember the original purpose of the development of the State universities, and that, of course, is to provide opportunities that were not otherwise available to an important sector of our population.

Certainly, some of our State universities, Berkeley is a case in point, and it is extraordinarily well-endowed now. To call it a State university in the sense that the whole system began would be a travesty.

I think it is a very proper question you are raising. I would rather like to, however, try to focus upon the issue of educational opportunity in every way that we can provide it. As of right now, we still have, of course, serious inequities in that regard. I mentioned the fact that there are some States that have resources and others do not. There are some more willing to tax their citizens than are others. Certainly, too, we have instances in which private institutions are not as well run as they might be, and we certainly can say the same for some public ones. There are diverse problems that I think bear scrutiny.

But I would be very sorry to see us move to a situation in which we try to equalize our private and public sectors in a way that in fact reduced access for many, many students.

I do support much of what is being said by my colleagues in their attempt, with one exception. I hope we would continue to have a flexible system and an approach toward financial aid so that those students whose resources or family responsibilities are of a particular characteristic, could nonetheless continue to be students even though it might be on a half-time basis.

Incidentally, I think we are going to see more and more graduate students, including doctoral students, pursue their graduate studies, while also pursuing a lively load.

Mr. Johnston. Only doctors admit people to hospitals and discharge them. And only colleges admit people to college or discharge them. Only the faculty—not the Congress. It concerns me that our standards of administration have been dropped in a deliberate attempt to build staff and faculty and so on, as a consequence of which somewhere between 25 and 30 percent of the people graduating this year from college are going to take jobs where a college degree is not needed or necessary. I think perhaps only the colleges can clean up that act. If you have 30 percent fewer students to allocate available resources to, you would have adequate resources, would you not?

Dr. **Colbourn**. Let me again say we have a serious imbalance in terms of priorities and requirements across the country. In the State of Ohio you have basically open admission still. That has never been the case in Florida, or in New Hampshire, for instance, or California. In California, the university system, at least on paper, admits only the top 12½ percent of the high school graduating class.

In the State of Florida, previously we have been increasing admission requirements over the last several years. Indeed my university's are higher than required by the board of regents. We still have problems in terms of more students seeking admission than we have the ability to handle. But this might be very unusual because we are a younger area. I don't know that that means too much. But the fact is every State has different approaches toward minimal requirements on the part of its public institutions. Anything the Congress can do to urge a greater uniformity might indeed be in the public interest.

Mr. **Johnston**. Is uniformity desirable in the country?

Dr. **Colbourn**. I personally favor diversity. But all I am saying is we may have more than we can really afford.

Mr. **Johnston**. Well put. Thank you.

Mr. **Nelson**. I might mention, while you are here, that my colleague, Congressman Johnston, is from North Carolina and near the Research Park Triangle. We are starting a similar concept here in Orlando of a research park adjacent to the University of Central Florida.

Dr. **Colbourn**. FIT is over in Melbourne, about 1½ hours away. Rollins is a distinguished small liberal arts college, about 1,300 students. We are the area State university, with about 13,500.

Mr. **Johnston**. We have three institutions in our Research Triangle.

Mr. **Nelson**. Increasingly, with the concentration of high technology in this area and with an industrial high technology base, it is more and more becoming apparent that the needs for research are here and the opportunities are here. We look in large part to your State as an example of a good research park.

I thank you all. Did you have a comment Dr. Fullerton?

Dr. **Fullerton**. I would like to comment on the two-tier system. In effect, it already exists, because the State subsidies and others go to the public institutions, whereas the privates are only now beginning to participate in any kind of State subsidy.

My concern in all of education is the lack of education. And anything that can be done to improve that, I would be in support of. And that is why I come here. It might seem rather elitist. But I still feel people who do well academically should be rewarded for having done well previously, and having the potential to do well. Like it or not, successful people continue to be successful, and successful people usually are the ones that contribute the most. I know a lot of people argue with that. But I have not found much research to contradict it. And my feeling then is if there is some way to build into the rules and regulations a way of rewarding the youngster who has been a good student and who will continue to be a good student—it saddens me when I see a youngster who is borderline literate getting massive doses of financial aid for a 1- or 2-year vacation, which in many cases is what it is, when other youngsters who because they happen to come from a reasonably well-to-do family—well-to-do families also have expenses, and average families have expenses. Here is a youngster who has never received a grade lower than "B" since seventh grade and wants to go to a particular kind of school but is not eligible for any kind of aid. I think that is tragic. I think that is a terrible waste of natural resources.

Mr. JOHNSTON. Educators have generally come to us on the premise that more money can solve all problems. In essense, I think they believe with enough dollars we can repeal the bell-shaped curve. We have pursued that blindly and watched a deteriorating end product.

I taught at the University of North Carolina at Greensboro. I got what the NEA told me was presumably the better high schools in the State, and they could not differentiate between "their" and "there." It was just appalling. And yet we had more and more students.

Dr. FULLERTON. They cannot repeal the bell-shaped curve. I have seen several instances where they reduce it, but it falls on different ends of the overall curve.

Mr. NELSON. We are going to have to move on here. I am going to call a 2-minute recess, and during the recess if our next panel on interest rates and housing will come up—Mr. Korenblit, Mr. Elrod, and Mr. Culpepper.

[After recess.]

Mr. NELSON. The committee will come to order.

For those of you who have come in since we began, we have a rather ambitious schedule today in which we are hearing from a number of sectors, trying to accommodate all views. To be fair to everyone, I have to keep us moving along on a time schedule.

The next panel representing concerns with interest rates and housing is ably represented by three gentlemen. We will hear from each of you, then the members of our committee will ask questions if they like.

First, let's call on Jack Korenblit, who is the president of the Florida Association of Realtors. Mr. Korenblit is from central Florida. It is a real privilege to have him here.

STATEMENT OF JACK KORENBLIT, PRESIDENT, FLORIDA ASSOCIATION OF REALTORS

Mr. KORENBLIT. Thank you, Mr. Chairman.

It is with sincere purpose that I appear before you today to comment on the economic well-being of our State and the real estate industry in particular.

As president of the Florida Association of Realtors and its more than 60,000 members, I would like to convey to you our thoughts on what Congress and the President should do to improve our current economic situation. Although my comments will be somewhat general, I am pleased to have Bob Elrod, a realtor from Windermere, following my testimony. Mr. Elrod, who is a former State senator now serves on the National Association of Realtors Legislative Committee. With Mr. Elrod's background, he will be able to speak in more graphic terms on the current real estate industry in Florida.

With that in mind, I would like to share with you the following information.

In the May 1982 issue of the Florida Trend magazine, the key Florida business indicators show that activity in several sectors of the State economy, notably wholesale and retail trade and finance, was nearly flat for the first quarter of 1982. Although the State's sales tax collection is up by an average 11.6 percent from 1 year ago and personal income is up an average of 18.3 percent from 1 year ago, we are seeing a dramatic drop in total construction units. That figure for the past 12 months shows a 23.5-percent drop statewide. The reason for this is pure and simple, it is because interest rates are far above the 12 percent level that is needed in order to spur a revival of the housing industry. I don't think I need to go into an explanation of what this would mean in terms of jobs, auto sales, State and local income from tax collections, and affordable housing.

Second, in the Florida Association of Realtors marketing data quarterly report, we show the following: Total number of sales for the first quarter of 1982 was 8,790. This is down from 12,090 for the first quarter of 1981. In other words, sales are down by 29 percent. Actually, sales would be down much further if it were not for some form of owner financing on resales. This information was reported by 17 of our 37 local boards of realtors.

Also, for your information, the average sales price for residential property for first quarter 1981 was $69,825. For the first quarter of 1982, the average sales price was $77,580. This is up $7,755 over the same time period a year ago.

When checking with the Homebuilders Association of Mid-Florida, we find a depressing outlook. Housing starts for January 1982 are down 59 percent over January 1981 and down by 45 percent for February over February 1981.

Now, having said all of this, what should Congress and the President do to improve the depressed housing industry and once again make affordable housing available to the millions who dream of owning a home some day? In my opinion, if we are to see an improvement in the economic picture for 1983, the single most important issue before the Congress this year is the size of the budget deficit. In fact, the Federal budget deficit is projected to be over $100 billion for each of the next 3 years. Unless significant reductions in the deficit occur then the prospects of a recovery are very dim.

Why did I just say that the prospects are dim? Well, because of the current paralysis in the Federal Government and the inability to negotiate a compromise between the Congress and the President, it appears quite likely that no budget will be passed in 1982. It is even more likely that a budget will be formed too late to make a difference in the fiscal year 1983 deficit since a change in cost-of-living adjustments for entitlement programs must be adopted by the end of May in order to be effected in July.

If this should happen, then the business economists around the country will probably be right when they say that the 1983 budget deficits may exceed $160 billion. If this indeed comes to pass, then a deficit of this size will only do one thing and that is eat up all the available capital and serve to drive interest rates even higher. For the 1982 fiscal year budget the National Association of Realtors advocated a $118.3 billion deficit. Today the Congressional Budget Office predicts it will be $131 billion. If this is indeed the case, then it will take over 23 percent of all private savings just to service this deficit.

I think you can immediately see the harm this has on the availability of working capital and high interest rates that this brings about.

What is the solution? In my opinion, the Congress either has to reduce the deficit by raising taxes, or by cutting Federal spending. I believe we have to take a hard look at cutting Federal spending.

Now, how do we go about reducing Federal spending? The National Association of Realtors continues to urge a slowdown in spending growth in all areas of the budget. This includes defense, entitlement programs, and others. If it is impossible to lower deficits with only a spending slowdown, then revenue increases should be found which do not discourage savings and investment. It is important that Congress adopt such a budget quickly.

Furthermore, spending cannot be controlled without dealing with runaway entitlement programs. These so-called entitlement progams such as food stamps, social security, welfare, and medicare increase automatically each year. Congress and the administration have turned their backs on these politically popular programs and have allowed them to bring the economy to its knees.

In short, these programs should not be looked upon as sacred cows, but rather the deficit must be reduced by cutting or freezing them not by raising taxes.

So what is the outlook on budget deficits for the next 3 years? According to Members of Congress and the President, the budget deficit for 1983 is projected to be $182 billion; for 1984, it is estimated to be over $216 billion; and for 1985, the deficit could be as much as $233 billion, using current estimates. If this is allowed to happen, we will not see any decline in interest rates in the foreseeable future.

What I propose to you here today as well as the position of the National Association of Realtors is that the budget deficit for 1983 should be held to less than $100 billion. In 1984, the deficit should be kept below $75 billion and for 1985, it should be held below $50 billion. If this could be accomplished, then there is reason to believe that a balanced budget could be achieved by fiscal year 1986. We believe this should be achieved by reducing the growth of spending in defense, entitlement, and their programs.

In closing, if housing, real estate, and other industries hope to prosper in the next few coming years, then interest rates must be brought down. Furthermore, interest rates cannot hope to return to normal levels until the deficit takes much less of the people's savings and investments.

Mr. Chairman, we have survived in the past and we will try to survive in the future. However, that is a tough pill to swallow and it is made especially tough when you observe the Congress and the administration playing party politics at the expense of people's livelihood, not to mention the welfare of our country.

Thank you very much for your attention and I hope that you will take seriously my comments as they are intended to underscore the seriousness of our current economic situation and the need to approve a budget which keeps deficit spending to less than $100 billion in 1983. Please give this your fullest attention. Thank you.

Mr. **Nelson**. We appreciate your testimony.

We are proud of you personally. You have stated a number of things that I think are right on target. Both of my colleagues, Congressman Gephardt, a Democrat from Missouri, Congressman Johnston, a Republican from North Carolina, and I have had talks during yesterday afternoon on our way to Orlando from Washington about the need to set partisan politics aside and to adopt a budget that is in the best interests of the country. And just this morning we are working toward that effort. Congressman Gephardt is on the phone right now trying to arrange a series of meetings starting tonight when we get back to Washington to bring about a true bipartisan approach to this budget.

In my opening comments this morning, I mentioned that this hearing is occurring at a most apropos time, because we have just reported a budget resolution out of the committee. It is coming to the floor Friday for debate, and the amendatory process begins a week from today. So I appreciate the spirit of your remarks.

The next person on this panel is Robert Elrod, past president of the Orlando-Winter Park Board of Realtors.

Mr. Elrod, any material that you would like presented for the record, we will insert.

STATEMENT OF ROBERT H. ELROD, PAST PRESIDENT, ORLANDO-WINTER PARK BOARD OF REALTORS

Mr. **Elrod**. Before I start, I would like to thank Congressman Gephardt for all his work on the independent contractor bill. We appreciate that continued effort.

We appreciate this opportunity to share with you our assessment of the impact of high interest rates on the sale of existing homes in the Orlando market.

Our assessment is based upon data compiled by the multiple listing service of the Orlando-Winter Park Board of Realtors, the Florida Association of Realtors, and the National Association of Realtors.

This research indicates the Orlando real estate market is involved in a steadily worsening economic condition. If the Orlando resale housing market continues at its current pace, the volume for the year will be around $311 million. This is down substantially from last year's volume of $451 million. Sales through the Orlando board have fallen every month this year in comparison with the same months over the past 2 years. The number of sales through the first 4 months of this year is off more than 36 percent from the same period of 1980 and 29 percent from last year.

Notice of sales were down 38 percent from April of last year and off 33 percent for the first 4 months of this year. Listing expirations which reflect the sluggishness of the market were up 90 percent over April of last year. Listing extensions increased 37 percent in April from the same month last year. And extensions are up 31 percent for the first 4 months of this year as compared to the same period last year.

The number of residential units sold in the entire State of Florida during the first 3 months of this year is down 27.3 percent from the last quarter of last year. Dollar volume of residential sales in Florida during the first quarter of this year were down 15.5 percent from the comparable quarter for last year. And the number of condominium sales in Florida during the first quarter of this year were down 27.5 percent from the comparable quarter last year.

The effect of this market condition has been devastating to both the homeowner and the prospective buyer. Oftentimes, when a homeowner is transferred to another city he must sell his present home before he can buy a new home in the community where he is going to be employed. That means that he must pay rent in addition to making his regular monthly payments on his present home.

Conversely, buyers coming into this area have the same problem. They cannot purchase a home here simply because they cannot sell their home in the community from which they are moving.

And there are those who want and need a home but who cannot qualify for a mortgage at the current high interest rates. Most conventional lending institutions follow the 25-percent rule. That means the borrower must have sufficient gross income so that his mortgage payments will not exceed 25 percent of his gross income.

The selling price of our average three-bedroom home is $70,000. At the current interest rates of 16.5 percent a buyer would need a gross income of $38,000 to qualify for an 80-percent mortgage on a $70,000 house. However, at a 12-percent interest rate the same buyer could qualify for the same mortgage with a gross income of $28,000. Therefore, high interest rates have priced many potential home buyers out of the market.

Many sellers have been forced to participate in the financing of their homes in order to bring about a sale. Our research indicates that 70 percent of all of the homes sold in Florida this year had some form of seller financing.

It now appears the Federal Government is committed to a deficit of unprecedented magnitude which will compel Government borrowing at levels which guarantee interest rates will continue at levels so high that the eventual result would make it impossible for Americans to purchase their own home.

We respectfully recommend that you take the necessary steps to reduce the Federal deficits to a level which will promote the reduction of interest rates.

The objective should be to limit the budget deficits to less than $100 billion in fiscal year 1983. The fiscal year 1984 deficit should be kept below $75 billion. The fiscal year 1985 deficit should be held below $50 billion and a balanced budget should be achieved by fiscal year 1986. We believe that such action could cause short-term interest rates to drop within 90 days by as much as 4 percentage points. Mortgage rates could drop by 3 percentage points within 3 to 6 months.

This action would triple the number of American households eligible for homeownership, and would likely result in nearly 1 million additional households owning homes they need each year.

We seem to have an emotional, psychological gridlock focused on the size of the deficits. Action by Congress could break this gridlock. The strength and the timing of a recovery rests on whether Congress can achieve a deficit trimming budget compromise. Thank you.

[The prepared statement of Mr. Elrod follows:]

PREPARED STATEMENT OF ROBERT H. ELROD

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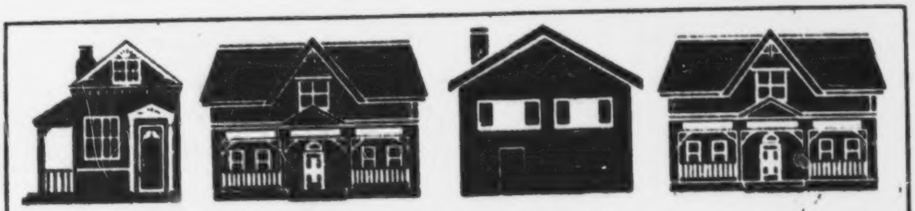

Metropolitan Orlando resale housing

Sales volume in millions of dollars

	1980		1981		1982	
	Sales	Volume	Sales	Volume	Sales	Volume
January	505	$29.68	517	$30.15	277	$19.35
February	580	$29.99	473	$29.57	341	$22.84
March	732	$39.51	620	$38.96	490	$33.34
April	604	$33.92	563	$36.78	429	$29.70
Totals *	2,421	$133.12	2,173	$135.46	1,537	$105.24

* Volume totals may not add because of rounding

Source: Orlando-Winter Park Board of Realtors Multiple Listing Service

Resale housing creeps along

Listings lag, extensions grow, some salesmen bailing out

By Jack Snyder

OF THE SENTINEL STAFF

If the Metropolitan Orlando resale housing market continues at its current pace, the sales volume for the year will be around $311 million.

That's pushing a third of a billion dollars.

And if most sales commissions are 7 percent, that means a pie of nearly $22 million to be cut up by the approximately 4,500 Orlando-Winter Park Board of Realtors members with access to the Multiple Listing Service.

Those are big bucks figures.

But they're not nearly as big as they have been.

For instance, last year, sales through the board's Multiple Listing Service totaled nearly $451 million.

In 1980, it was just under $428 million.

And in 1979, the total was close to $467 million. That's edging toward a half-billion dollars.

As everyone outside of Siberia knows, high mortgage interest rates have raised havoc with both the new and resale home markets.

Activity has been slashed even in hot growth areas such as Central Florida.

Sales through the Orlando board have fallen every month this year in comparison with the same months over the past two years.

The number of sales through the first four months of this year (1,537) is off more than 36 percent from the first four months of 1980 (2,421) and more than 29 percent from last year (2,173).

Listing expirations — an indicator of sluggish sales activity — last month leaped 90 percent over April 1981. However, for the first four months, expirations are actually down 6 percent.

Notices of sales were down 38 percent from April of last year and off 33 percent from the first four months of 1981. Listing extensions increased 37 percent in April from the same month last year. Extensions are up 31 percent in the first four months of this year over the same period last year.

Area brokers have eliminated marginal offices, concentrating more people in their best locations.

Some brokers are seeing increasing turnover as sales associates get discouraged and leave the business. The Florida Real Estate Commission has had decreasing new license applications since December.

Motivating sales people must be done in good and bad times, but it is especially critical today, said Realtor Frank Borgon.

"Business is there, but it's harder to get at," said Borgon. "You have to work three or four times harder today."

Microfilmed From
Best Available Copy

APRIL 1982 -- RESIDENTIAL SALES COMPLETED

NO. OF BDRMS	TOTAL NO. SOLD	TOTAL SALES VOLUME	AVERAGE SELLING PRICE
1	4	$ 114,500.00	$28,625.00
2	76	$ 3,740,750.00	$49,220.00
3	215	$ 14,930,095.00	$69,442.00
4	81	$ 8,572,642.00	$105,835.00
5+	2	$ 689,900.00	$344,950.00

378 RESIDENTIAL SALES FOR A TOTAL VOLUME OF $ 28,047,887.00

1,900 LISTINGS FOR TOTAL VOLUME OF $ 189,103,091.00

429 SALES COMPLETED FOR TOTAL VOLUME OF $ 29,709,536.00

National Association of REALTORS®
Real Estate Trend Indicator

Board ORLANDO-WINTER PARK

State FLORIDA

Month of APRIL 19 82

SUPPLEMENTAL INFORMATION

The items to the right of the bold line are also highly important housing market indicators. Please provide where possible.

Price Class	Single-Family Unit Sales Number of Bedrooms 2 or less	3	4 or more	Apartment Condo/Co-op Unit Sales	Single-Family Listings End of Month	Apartment Condo/Co-op Listings End of Month
$19,999 or under	1				1	0
$20,000-$29,999	11	3	2		11	0
$30,000-$39,999	14	25	2	5	76	16
$40,000-$49,999	16	39	3	3	155	42
$50,000-$59,999	9	40	7	5	158	14
$60,000-$69,999	5	33	14		173	22
$70,000-$79,999	7	20	11	5	152	22
$80,000-$89,999	1	9	10	5	116	13
$90,000-$99,999		10	5	1	80	10
$100,000-$119,999		6	7	1	98	2
$120,000-$139,999		6	10		79	4
$140,000-$159,999		6	2		54	6
$160,000-$179,999	1	1	3		44	1
$180,000-$199,999		1	3		30	1
$200,000-$249,999		1	2		32	
$250,000 and over		2	5		42	1

Time on Market of Units Sold	# Units
1— 30 days	8
31— 60 days	60
61— 90 days	82
91—120 days	63
More than 120 days	216

Type of Financing	# Units
Conventional	48
FHA	15
VA	4
Assumption	195
Cash	45
Seller Financing	--
Other	122

Mr. NELSON. Thank you very much. Your points, as well as those of Mr. Korenblit who proceeded you, are very well taken. I think you have presented your views very concisely.

Dick, I shared with the hearing that you are coordinating an effort to see if we can really get a bipartisan approach to this budget along the lines which you outlined to bring down that huge budget. It is currently estimated to be in excess of $180 billion. Everybody has agreed if the present budget stays in place, it will be $182 billion of deficit in fiscal year 1983.

Let me call on Blair Culpepper, president of Pioneer Federal Savings & Loan, representing today the Florida Savings and Loan League. We appreciate your being here.

STATEMENT OF BLAIR CULPEPPER, CHAIRMAN, FEDERAL LEGISLATIVE COMMITTEE OF THE FLORIDA SAVINGS & LOAN LEAGUE

Mr. CULPEPPER. Thank you very much, Mr. Nelson. It is a pleasure for me to be here.

I will try to summarize as I go along. I think everyone has a copy of my statement here.

The savings and loan industry of Florida has had a difficult time the last 2 or 3 years because of high interests and strictly high interest rates. As a matter of fact, I think that we would be profitable this year if interest rates fell. But because it appears they will be on a high level, it is going to be very difficult for our industry to maintain a profitable level.

In 1981, we placed loans totaling $5.4 billion compared with $7.1 billion the year before, a 22-percent decrease. So it has been a several-year process. This year we have had probably a decrease of around 51 percent, all the way through this month. The only record we have is indicated in my statement for the first 2 months of the year.

Savings also are off from the previous 2 years, and particularly in 1982.

Florida is the second largest savings and loan State, behind California—this certainly makes a difference. It points out various problems because of high interest rates, because of competitive alternatives for savings.

I think our story has been well documented in Congress, and many of our industries have appeared before you recently to tell you about the thrift institutions.

The inability of our industry to fund and deliver affordable mortgage credit has created the worst housing crisis this Nation has experienced since World War II. And what is especially disturbing, I think, is that housing as a national priority no longer enjoys its previous status as one of the social prerogatives. This has happened more through oversight and omission rather than by direct action on the part of the Congress. The people of this country really had no say in the decision that relegated housing to this secondary position.

It was made by Congress, unknowingly perhaps, in 1980, when it was determined to pay savers a competitive market right on their deposits. And I will refrain from editorializing on the money market certificates and so on.

If there are any questions, I will be happy to answer them. But it is interesting that our savers, because of market forces, became investors. There have been opportunities outside of regulated industries offering higher interest rates. And as a result, the money has flowed from thrift industries, from housing interests away to higher interest rates, and has created some panic in the housing area.

Short-term rates and long-term rates have remained high persistently as a result of inflationary expectations. And I think all of us believe rates are going to be high, so we concentrate on that and want to buy instead of save.

The home buyer, therefore, had to compete in credit markets with large corporations and the U.S. Treasury, which was really not a contest. The home buyer could not pay these higher rates. Homebuilding, therefore, is sharply curtailed ever since.

Inflationary expectations is something that I think you should be aware of. It is driving up interest rates year after year.

Previously, the recession brought about lower interest rates, but this time the recession has not had that effect. A historically reliable countercycle, relationship of housing to the economy, is just not working, nor has the tight monetary policy, or even the oil glut proven to be the answer. Other industries also are feeling this crunch.

I would like to emphasize this. The impact of restriction on the creation of new housing—fewer construction jobs, fewer jobs needed to manufacture building material and appliances, fewer jobs to produce the products for completed homes.

I would like for you to think about the social impact of inadequate housing, the effect on the health and welfare of our citizens, the effect on family life, the effect on family formation, and the delay of our children putting down their roots. And the effect on the mobility of our citizens' loss of personal freedom.

This is getting right to the heart of the matter. This is totally unacceptable in our democratic way of life.

If you look at the specifics today, there is some money available, but few requests are being presented. We are doing a lot of blending of old mortgages and trying to improve the older lower rate mortgages. Buyers simply cannot qualify for the 16½ or 17 percent mortgage loans. And it is no wonder that lending is off by 70 to 80 percent since 1979.

The realtor, as was outlined before, may have plenty of sales that could be consummated if only the financing could be handled. The few deals that do close usually involve balloon payments, interim financing devices, second, third, fourth mortgages, loans due in 3 or 5 years, steep buy-downs, and so on.

If you take a look at the builder, he is sitting on a frightening amount of unsold inventory, paying interest on construction loans at prime plus 2 percent or more. And that construction loan interest is then bumped to prime plus 4 percent if he is delinquent. He is running out of resources in his ability to hold on. I am pleased to hear you are going to hear from the homebuilders later today.

Twenty-five percent was mentioned. But now the buyer is paying 45 or 50 percent of his income and getting less house—if he can qualify at all. Then he is taking a chance on his ability to finance in a few years at possibly higher rates.

This brings up an interesting question. What will happen to these short-range financing techniques in a few years? What happens in 1984 when the real estate financing of 1979 and 1980 must be refinanced, at the same time the corporations, State, and local governments must refinance, defense expenditures may be at their highest? We may be heading for a really massive credit crunch relatively soon. And given the market rates that home buyers must pay, there will be precious little credit available for housing.

To sum up, the thing that we seem to have heard is to go out and find an answer, but make sure it doesn't cost any money. We urge Congress to develop a balanced budget. We must get interest rates down or housing and the 150-year-old savings and loan industry will cease to exist. We will survive in some form or other. And we will move into a number of deregulated activities. But housing will certainly suffer unless we balance that budget and get the interest rates down. Thank you.

[The prepared statement of Mr. Culpepper follows:]

PREPARED STATEMENT OF BLAIR CULPEPPER

My name is Blair Culpepper. I am President of Pioneer Federal Savings and Loan Association of Clearwater. I appear here today as Chairman of the Florida Savings and Loan League's Federal Legislative Committee. The Florida Savings and Loan League is the state trade association for 134 S&Ls in Florida who have total assets in excess of $58 billion.

The Florida League appreciates this opportunity to make this statement on the impact high interest rates are having on the economy and especially the thrift industry and housing.

In 1981, the savings and loan associations in Florida closed a total of $5.4 billion in loans compared to $7.1 billion in 1980 - a 22.7% decrease. Through February of this year, loan closings have amounted to $490 million compared to $1.0 billion for the same two-month period in 1981 - or a 52.1% decrease in lending.

Like mortgage lending, savings in our institutions are also off from previous years. In 1981, total savings increased by $2.1 billion compared to $4.6 billion the previous year - a 55.1% decrease. During the first two months of 1982, savings have increased by $628 million compared to $976 million for the same period in 1981 - a 35.6% decrease.

As the second largest savings and loan state in the nation - based on total assets - these are significant figures that further point out the serious problems high interest rates and competitive alternatives for savings deposits are having on thrift institutions and housing in our state and the nation.

As a member of Congress you are aware, from previous testimony presented by members of the Federal Home Loan Bank Board and our national trade association representatives in Washington, of the severe financial crisis presently being faced by the thrift institutions of this nation.

The inability of our industry to fund and deliver affordable mortgage credit has created the worst housing crisis this nation has experienced since World War II. What is especially disturbing is that housing - as a national priority - no longer enjoys its previous status as one of America's foremost social perogatives. Ironically, this has happened more by oversight and omission rather than by direct action on the part of our political leadership. Moreover, the people of this country have had no say in that decision which has relegated housing to this secondary position. The decision that affected housing so adversely was made by Congress in 1980 - perhaps unknowingly - when they determined to pay savers a competitive, market rate on their deposits. The financial effect was immediate with the cost of mortgage credit increasing proportionately with the cost of savings deposits.

The hope was that the general level of interest rates would remain low enough so that mortgages could be made at affordable, but at somewhat higher, rates. Congressional strategists reasoned that short term rates would rise only for short periods of time, and that by allowing depository institutions to pay competitive rates, disintermediation could be avoided.

Well, as you know, this association proved incorrect. Short term rates and, of course, long term rates have remained high, persistently, as a result of inflationary expectations which were essentially related to the lack of a clear economic policy. Those persistently high rates meant that the average American homebuyer had to compete in the credit markets with large corporations and the U.S. Treasury which turned out to be simply no contest. The homebuyer could not pay those high rates, and homebuilding has been sharply curtailed ever since.

The present credit crunch is different from those experienced in past years:

In the past, the problem was an absolute shortage of credit which caused high rates. This time credit is limited as to availability, but rates are still high. That means that inflationary expectations are driving up interest rates; in other words, supply and demand are not working in the normal manner relative to price. And this time, interest rates are persistently higher than in the past.

In the past, a recession brought about lower interest rates, but this time the recession has not had that effect. Moreover, the historically reliable "countercycle" relationship of housing to the economy is not working. Nor has a tight monetary policy, moderate wage demands from labor unions, or even an oil glut proven to be the answer. This country is now gripped by an economic policy of psychological paranoia and has now become a political hostage.

In this credit cycle, other industries are feeling the pinch along with housing. This includes automobiles, agriculture, airlines, farm equipment manufacturers, entertainment, and credit sensitive small businesses.

In this credit crunch, the normal self-correcting pendulum has simply not swung back in the usual way.

Obviously, this crunch is qualitatively and structurally different, and the effects and impact on housing seem to be much greater: more builders are going out of business; more savings and loans are being merged out of business; more deflation of housing prices is taking place; and more uses of creative financing are being made, the effects of which may someday come back to haunt us.

All of this is occurring at the worst possible time for housing: there are severe reductions in federal efforts to provide housing for low and moderate income families; state and local government budgets are being pinched more than ever as a result of local initiatives such as Proposition 13, Proposition 2½, and now the "New Federalism," meanwhile the demand for housing because of the baby boom is at extraordinarily high levels.

For instance, let's consider the economic impact of a restriction in the creation of new housing - fewer construction jobs; fewer jobs needed in the manufacture of building materials and appliances; and fewer jobs to produce the products for the completed home - furniture, drapes, carpets, etc.

Look also at the social impact of inadequate housing: the effect on the health and welfare of our citizens; the effect on family life; the effect on family formation and the delay our children will have in putting down their roots; and the affect on the mobility of our citizens and the loss of personal freedom, which is unacceptable in a democracy.

Politically, housing is also important because a housing crisis threatens the American dream and the American way of life.

But these are generalities. Let's look at the specifics of what is going on in the real world of housing.

Sit in most any savings and loan association at a typical meeting of its loan committee. Some money is available, but few deals are being presented. Potential buyers simply can't qualify for 16.5% or 17% mortgages. No wonder S&L lending is off some 70% to 80% from 1979 peaks. When deals do come in, often two or more families are applying for the same loan on the same house. Doubling up is clearly occurring.

Or take the typical realtor. In his or her case plenty of deals could be made if only the financing could be handled. The few deals that do close usually involve balloon payments; interim financing devices; second, third and fourth mortgages; loans due in three or five years; steep buy-downs, and so on.

And what about the typical builder? He is sitting on a frightening amount of unsold inventory, paying interest on a construction loan at prime plus 2% or more. And that construction loan interest rate is bumped to prime plus 4% if he is delinquent. He is running out of resources and the ability to hold on.

MLS COMPARATIVE STATISTICAL REPORT

DATE: APRIL 1982

	MONTH OF APRIL		DIFFERENCE		JANUARY 1 THROUGH END OF REPORT MONTH		DIFFERENCE	
	1982	1981	+ or -	%	1982	1981	+ or -	%
1. LISTINGS RECEIVED	1,900	1,921	- 21	- 1%	7,309	7,165	+ 144	+ 2%
2. NOTICE OF SALES	505	812	-307	-38%	1,874	2,792	-918	-33%
3. REINSTATEMENTS	55	88	- 33	-38%	259	319	- 60	-19%
4. SALES COMPLETEDS	429	563	-134	-24%	1,537	2,173	-636	-29%
5. EXTENSIONS	413	302	+111	+37%	1,695	1,298	+398	+31%
6. WITHDRAWALS	186	161	+ 25	+16%	641	590	+ 51	+ 9%
7. EXPIRATIONS	1,879	987	+892	+90%	6,211	6,640	-429	- 6%
8. CHANGES PROCESSED	1,348	1,145	+203	+18%	4,554	4,500	+ 54	+ 1%
9. SALES VOLUME	$29,709,536.00	$36,783,007.00	-$7,073,471.	-19%	105,249,408.00	135,467,281.00	-30,217,873.	-22%
10. AVERAGE SELLING PRICE	69,253.00	65,334.00	+3,919.00	+ 6%	68,461.00	62,341.00	+6,120.00	+10%
11. TOTAL NUMBER OF CO-OPS/PERCENTAGE	244/57%	353/63%	-109	-31%	869/56.5%	1,333/61%	-464	-35%

12. TOTAL MLS SALES VOLUME PROJECTED FOR 1982 BASED ON 88 WORKING DAYS: $ 310,964,160.00

13. REALTRON SUBSCRIBERS 185 1982 167 1981

Most important, what about the typical buyer? He's paying 45% or 50% of income and is getting less house, if he can qualify for a house at all. And then he is taking a chance on his ability to refinance in a few years.

That brings up an interesting question. What will happen when these short-range financing techniques come home to roost? What happens in, say, 1984 when the real estate financing of 1979 and 1980 must be refinanced - at the same time that corporations and state and local governments must refinance and at the same time that defense expenditures will be at their highest? We may be heading for a massive credit crunch relatively soon, and given the market rates that homebuyers must pay, there will be precious little credit available for housing.

SOLUTIONS

Of course, everyone is searching for answers to the housing problem in our nation. Some people in leadership positions say to their experts: "Go out and find me an answer, but make sure it doesn't cost any money." This is because they believe that any spending means bigger deficits which, in turn, means continued high rates.

We of course do not have the absolute answer, but we do believe that Congress has the choice of developing a truly comprehensive anti-inflation program which consists of: a monetary and fiscal policy that meshes; incentives for increased industrial productivity and incentives for savings; a national energy conservation program; and careful deregulation of certain industries.

Finally, there must be other choices available to Congress other than housing, for housing has borne too great a burden in the last few years. Housing starts at a 1.0 to 1.1 million level are not acceptable in light of numerous studies which show this nation requires 2.2 to 2.4 million new units per year to meet our housing needs.

I thank you for the opportunity to participate today and will be glad to respond to any questions you might have on the impact high interest rates are having.

Mr. **Nelson**. Thank you.

I might say to my two colleagues from the House Budget Committee, from the standpoint of housing, we in central Florida are a relatively prosperous part of the country. I say relatively, because when compared to other States where the savings and loans banks are teetering on bankruptcy, the status of our savings and loan banks is somewhat better.

So, with that in mind, our job today is to look beyond the relative prosperity of central Florida, to other areas of the Nation that are absolutely devastated economically.

Thank you all for your comments. Mr. Gephardt, any questions?

Mr. **Gephardt**. I just thank you for your comments. I think they are right on the point. I agree with everything you have said and truly hope that we can reach the changes in the deficit level that you expressed are needed.

I think if we do that, I agree with you we are going to see a significant quick change in interest rates, long and short term. Thank you very much.

Mr. **Nelson**. Mr. Johnston.

Mr. **Johnston**. The only thing that I would possibly take exception with is the idea that we would be better off with the balanced budget, with the Federal Government spending $700 billion next year and taking $800 billion in taxes out even we would be with the Federal Government spending $700 billion next year and only taking $750 billion out in the form of revenue resulting in a $50 billion deficit.

Mr. **Culpepper**. Let me respond. I guess I should have said worked toward a balanced budget. Earlier speakers commented over a period of time we would work toward a balanced budget.

Mr. **Johnston**. My point is simply that if we pursue the traditional solution of Congress for the last 25 years—and I quite frankly think Tip O'Neill regards the American people as fundamentally undertaxed—we will simply raise taxes rather than cut spending. And the most horrible figures I saw up there, as we were listening to testimony from the economists, was the fact that next year, if we don't control Federal spending, the Federal Government will spend 24 percent of our gross national product, and with State and locals in there at 19 and 20 percent you are talking about an economy for all practical purposes totally controlled by Government.

Mr. **Culpepper**. Mr. Gephardt made a comment a minute ago. Being in the savings and loan business, there are a number of our customers who are retirees, who receive social security benefits. I have talked to many of them. They would agree with you that cost of living, the built on, added on expense, has gotten out of hand. They would agree that it is not fair. But they are not crazy. If the money is available, they accept it. But they totally agree that spending needs to be cut. It affects them, but they understand.

Mr. **Johnston**. Last year when the President proposed some very minor changes in social security we saw the bumper stickers start coming out, "Save Social Security, Vote Democratic."

We all know 83 percent of the social security recipients have other sources of income. The idea that everyone on social security is living in a garret is not true. But if we propose any change we are going to get hit on a political rather than an economic basis. That is why we are in a logjam.

Mr. CULPEPPER. Yes, sir. We hope you will continue to accept the fire.

Mr. NELSON. Thank you for your participation this morning.

Our next panel is representing senior citizens. Mrs. Mary Jane Noble and Louis Kroll.

Mrs. Noble was my personal representative to the White House Conference on Aging. We are delighted to have you here this morning.

STATEMENT OF MARY JANE NOBLE, REPRESENTATIVE TO WHITE HOUSE CONFERENCE ON AGING

Ms. NOBLE. Thank you.

Locally, the Older Americans Act, through title III, funds programs in a four-county area: Orange, Osceola, Seminole, and Brevard.

According to the 1980 census these counties have a population of over 158,000 age 60-plus citizens. The central Florida senior population is increasing rapidly. Between the 1970 and 1980 census this population increased over 90 percent.

More frightening is the current increases in the over 85 years old age group who require more services. By the year 2020 this age group is projected to increase by 300 percent in the State of Florida.

The impact of the proposed budget changes on senior citizens are reflected in the following areas:

PROPOSED CUTS TO TITLE V OF THE OLDER AMERICANS ACT

Title V provides part-time employment for low-income seniors. Cuts in this program would impact in two ways: Persons of low income would need services instead of maintaining self-sufficiency. Nutrition projects would suffer because many of these persons are employed in the projects. Currently almost half of the 54,200 title V workers are employed in the congregate and home delivered meal programs.

These cuts set up the double bind of increasing persons needing the meals while decreasing the number of meals which can be provided because of decreased personnel to work in the projects.

Adult day care centers, transportation projects, shopping assistance, chore workers, employment counselors are just a few of the aging programs in our area who use title V senior employees. Both the programs and the senior employee who needs the additional income will suffer.

Impending cuts in title III nutritional programs will result in loss of 62,000 meals in this four-county area. Approximately 50,000 congregate meals and 13,000 home-delivered meals will not be served to hungry seniors in the coming year.

TITLE XX OF THE SOCIAL SECURITY ACT—BLOCK GRANTED

Locally these resulted in cuts to medical senior services; and decreased transportation services to seniors in Seminole County were felt immediately, and as of July 1, Brevard County will no longer have transportation for seniors funded through title XX.

Since Seminole County is primarily a rural county, this service was the only means for poverty level seniors to keep doctors' appointments.

FOOD STAMP CUTS

In the four-county area over 90 percent of the elderly poor will be affected by cuts in food stamps. In view of cuts to meal programs, the health and nutrition of these persons will be drastically impacted.

HOUSING

High interest rates have created a 67-percent housing shortage in this area. This is reflected in the higher rents being charged for existing dwellings. Rental costs are increasingly moving out of the range of affordability for the fixed income, 60-plus retiree.

They are coming to me all the time and saying, "What am I going to do, I have a 10-percent increase in my rent." And so many of them are on retirement funds—some of them are not on social security and don't get any cost-of-living adjustment, and it is getting to be a really devastating thing. I don't know what is going to happen to them.

MEDICARE AND MEDICAID

It is reported that by 1987 all medicare beneficiaries will have to pay as much as $107 themselves before medicare will "pay the first penny" toward their doctor bills; that over 1 million homebound elderly will have to pay up to $1,200 per year for home health care; that many of the 3 million poor elderly medicaid recipients will have less, or no access to nursing homes, prescription drugs, and other services because of cutbacks; and that 140,000 additional medicare beneficiaries will have to pay considerably more from their own pockets because their physicians charge more than medicare allows. Seniors can ill afford to meet the projected costs.

Unfortunately, that is not only in the future, but it is happening right now. People are all the time—they are not going to the doctor when they should. And if they do, they can't afford to buy the medication.

Florida now ranks as the third highest population of seniors in the Nation and the first in per capita. The 60-plus population is currently almost 25 percent of our total population. Any impact on medicare/medicaid benefits or social security benefits will hurt both our senior population and Florida's economy.

In summary, more than half of the $11.6 billion planned savings in this budget would come from households with yearly incomes of less than $10,000. This budget cost the average household with a $10,000 income or less about $320 which is nearly three times what higher income categories will lose. Thank you.

Mr. NELSON. Thank you, Ms. Noble. We appreciate that statement.

Now let me call on Louis Kroll, president of the Kinneret Tenants Association right in downtown Orlando.

Thank you, Mr. Kroll, for being here this morning.

STATEMENT OF LOUIS KROLL, PRESIDENT KINNERET TENANTS ASSOCIATION

Mr. Kroll. Thank you.

I am Louis Kroll, a resident of Orlando for 9 years and a citizen of the State of Florida for 31 years.

While some of my remarks may not appear in my written statement, I feel it is necessary to tell you my experience is not only with the elderly of central Florida but I have a vast knowledge of the straits of the elderly in Dade County in particular.

On behalf of more than 300 elderly Americans, members of Kinneret Tenants Association, as its president and senator emeritus of the Silver-Haired Legislature of Florida and spokesperson for thousands of elderly citizens of Orange County, I offer deep gratitude to this committee for this opportunity.

We strongly oppose any proposals which would in any way cap, freeze, delay the payment of, or gradually eliminate the cost-of-living adjustment for social security and Federal retirement recipients.

I would wonder whether Mr. Culpepper, in taking a survey of those seniors receiving social security and who seem to be in favor of some action on cost-of-living adjustment, has also taken a survey of the amount of money those people may have in a savings account and what other income they have besides social security.

It may well be true that there are a group of seniors throughout my area who could very easily afford, without a cost-of-living adjustment, to exist. But the direction is toward those who have a difficulty in existing, not only with receipt of a social security check, but with what other little income they have besides that in the face of the rising costs of living.

We unalterably oppose any recommendations or actions which curtail, reduce, eliminate, or change the procedures existing prior to 1981 affecting construction and needed rental subsidies of residential dwellings under section 202 and section 8 or any other applicable portion of the National Housing Act.

It is totally unfair to use social programs, be they entitlement or otherwise, as major sources for cutting the budget when little, if indeed anything, is done about the billions drained away from our Treasury by a failure to responsibly act to close all tax loopholes.

One wonders how many more billions are salvageable by discontinuing that total subsidy granted to multinational companies in the form of insurance indemnification for losses suffered in foreign lands.

And why allow the grossly unfair practice of taking tax credits for taxes paid to foreign nations for business done on foreign soil with very little, if any at all, of the profits being used in the United States of America?

And what about the bonanza granted by Congress last year enabling the sale or lease of unused tax credits? I dare say a few billions more down the drain.

And yet with all of these untapped resources, this administration and many of the Members of Congress are actively opting for a cap on the cost-of-living adjustment or for a delay in the payment thereof or completely eliminating same.

Capping the cost-of-living adjustment is just another way of saying reduce or freeze. Nowhere does anyone suggest a cap or freeze on the cause of cost-of-living adjustments. Why not a cap on the cost or rental of housing, or ever upward spiraling medicine and doctor costs, of hospital costs, of food and clothing?

We agree drastic action is required in this raging economic war. What we vehemently protest is making the elderly, the recipients of social security, the Federal retirees bear the heavier burden. It is respectfully submitted that to alter the cost-of-living adjustment is to commit political suicide.

Social security, while of paramount concern, is by no means the last of our worries. Equally disconcerting is the utter failure of the administration and the Congress to recognize the gravity of the housing plight of the elderly, needy, and handicapped.

And the fact that $1 billion has been recently appropriated by both Houses of the Congress is of no value from a dollar standpoint to the elderly because the billion dollars is for private dwellings.

What about those elderly who need housing in the senior high rises? What about low-cost housing? Why not an appropriation for them? And I would suggest perhaps it might be a workable program that for every 1,000 private dwellings, one senior high rise or one low-cost housing project be appropriated for.

Construction for the elderly, needy, and handicapped is at a virtual standstill while the numbers of those in need of adequate moderate and low cost housing is ever on the increase.

New construction, spasmodic as it is, is beyond the means of average Americans.

Rental increases have become routine. In most instances the rental increases equal or exceed the cost-of-living adjustment.

What does the cost-of-living adjustment recipient do to meet other obligations? He or she is forced to cut down on food and clothing. Visits, yes, necessary visits to doctors are reduced; use of medicines and other important drugs is dangerously curtailed.

The July 1982 cost-of-living adjustment is reported to be about 7.4 percent. With ever-increasing costs of the necessities of life, how far would this increase go?

We at our complex, a 202 partially subsidized under section 8, just received a 10-percent-plus increase in our rent effective May 1. The polite statement by management was that we could look to another within a reasonably short time. And in the place of a 7-month lease, reduced from 1 year, we are now on a monthly tenancy, a flexibility apparently needed for rent adjustments. All this with the approval of our Government through HUD.

How to manage our other daily needs. That is a staggering question.

We respectfully conclude: Massive tax cuts and radical increases for defense, many projected into later years, are mainly the cause of our weakened economy, an unbalanced and resounding deficit budget. Let us not make cost-of-living adjustment the scoundrel. Cost-of-living adjustment is the result, not the cause. Do not touch cost-of-living adjustment. Equitably and politically it would be unsound.

Let us go forward with a giant construction program of housing for the elderly with a rental program within the reach of Mr. Average Citizen.

We urge the merger of all 202 housing with a full and fair section 8 rental subsidy program, be it by legislation or regulation change.

To do other than we urge could lead to an increase in the number of the elderly living in poverty as defined by Congress. Thank you.

Mr. NELSON. Thank you, Mr. Kroll.

Let me ask you a question. A proposal has been considered this past week in the deliberations of the budget, that would take the social security system as a budgetary item, as a trust fund, out of what is called the unified budget, in which we consider all the spending of the Federal Government and setting it aside as a trust fund and not part of the unified budget. Do you have an opinion on whether or not you would like to see that occur?

Mr. KROLL. If my recollection serves me correctly, I think you indicated that some time back in offering a type of a program you would like to see toward balancing the budget.

Mr. NELSON. No; I have not.

Mr. KROLL. It sounds on the face of it a practical method. I think social security belongs in a category by itself. I think the difficulty we are seeing now in the social security program is that many unrelated matters to the intent originally had by Congress are slowly eroding the social security program unless something is done to that extent. I would say that a separate operation completely away from everything else would be a sound approach. At least that is off the top of my head.

Mr. NELSON. Ms. Noble, do you have a conclusion different from that?

Ms. NOBLE. No; I don't think so. I think social security, as Mr. Kroll has stated, has things brought in that should not be there in the first place.

Mr. NELSON. Mr. Johnston.

Mr. JOHNSTON. Mr. Kroll, would you define for me a tax loophole? Give me some illustrations of it?

Mr. KROLL. Well, it would be difficult for me, because I have never taken advantage of a tax loophole, I have never been in that category to concern myself about tax loopholes. But I have heard of many instances where a person with an income in the six figures has paid very little tax. The only way I can possibly understand his doing that, or her doing that, is that there were provisions in the tax structure which allowed that person to make certain deductions, take advantage of certain exemptions, which were not at all necessary or were to the disadvantage of the country at large.

Mr. JOHNSTON. Well, wouldn't you say——

Mr. KROLL. One particular tax loophole would be the writing off of a tax credit, or selling a tax credit as provided in the last act of Congress in 1981—selling a tax credit to a company which has the availability of profits, but the company that has the tax credit has no profit, it is operating in the red—take Chrysler, for example.

Chrysler is operating in the red. They have tax credits they sell off to somebody else.

Mr. **Johnston**. Why did we give them the tax credit?

Mr. **Kroll**. I don't know why.

Mr. **Johnston**. You didn't get a message to the effect we were trying to encourage them to invest in capital equipment so we could have additional jobs?

Mr. **Kroll**. I would understand that would be a sound reason. The problem in my mind is that the public which should know is not being told whether that is a fact, whether the company that is receiving that tax credit is actually taking that money and putting it into an expansion program.

Mr. **Johnston**. The only way you get the tax credit is to invest in new equipment. You understand that, don't you? In other words, the credit is based on your investment in new equipment. If you invest $1 million in new equipment you get a 10-percent tax credit. So if you do not invest in equipment you do not get the tax credit.

Mr. **Kroll**. I can understand that. But how does this tax credit sale or lease operate?

Mr. **Johnston**. Just because a company needs to invest doesn't mean it is profitable. And just because a company is profitable doesn't mean it doesn't need additional capital equipment. Some of the most profitable companies in the country are in the computer service area. They are in effect subsidizing the companies that need capital equipment such as the steel industry, automobile industry, and helping them modernize.

If we didn't have that credit, perhaps we would have another bailout program to allocate funds from rich companies to needy companies. What we are doing is letting them do it themselves.

The question I am getting at is apparently you are defining a tax loophole as some form of tax advantage given to one group of people that is not available to everyone; is that correct?

Mr. **Kroll**. It is available to me if I am in that category.

Mr. **Johnston**. People over 65 get two exemptions. Is that not a tax loophole?

Mr. **Kroll**. No; it is an additional tax exemption, not a loophole.

Mr. **Johnston**. What is the difference between exemption and credit? I say that you do not want the cost-of-living adjustment delayed for even 18 months.

Mr. **Kroll**. Right.

Mr. **Johnston**. For Federal retirement recipients. What if I told you there were over 30 retired generals in the U.S. Army that as a consequence of cost-of-living adjustment are drawing more in pension than the Chief of Staff of the U.S. Army. Would you say that is fair?

Mr. **Kroll**. It is not fair. You don't necessarily have to apply it only to Army retirees. There are civil retirees in the same category.

Mr. **Johnston**. What if I told you there are a substantial number of civilian retirees drawing more in retirement benefits than they ever made while employed?

Mr. **Kroll**. Something should be done by Congress to correct that situation.

Mr. **Johnston**. What built that inequity into the system, Mr. Kroll?

Mr. **Kroll**. Well, the only answer I can give you is a lack of action on the part of Congress to correct the situation.

Mr. **Johnston**. It was the cost-of-living adjustment clause.

Now, let me ask you this. I notice you jump on multinational corporations being allowed to offset taxes paid foreign countries for income remitted. Have you any idea how much our foreign investment—how many billions of dollars were transmitted back to this country by U.S. corporation subsidiaries, multinational corporations?

Mr. **Kroll**. How much of a profit? No; I do not. But I know an awful lot more of a profit could be shipped back to the United States if they didn't get that tax writeoff.

Mr. **Johnston**. Well, they can't——

Mr. **Kroll**. They are getting a double tax writeoff.

Mr. **Johnston**. No, sir. They have to pay the tax abroad before they get the tax credit here. So you want them taxed twice—once by the country, the host country, and again when they bring the money back here. Wouldn't that discourage them bringing it back here?

Mr. **Kroll**. Let me ask you a question. If I were to go to Europe and earn money in Europe and retain my citizenship in the United States, would I be entitled to the same tax writeoff? And then coming to the United States?

Mr. **Johnston**. Let me ask you this. Are you paying taxes where you are employed in Europe?

Mr. **Kroll**. Yes.

Mr. **Johnston**. Yes, sir, you would. Up to $8,000. You would be exempt from income earned abroad while you were taxed in the host country abroad; yes, sir, as an individual.

Mr. **Kroll**. There is one thing very apparent. That is the American public isn't being informed correctly—getting information to the public. If the American public had any knowledge of what actually is going on behind the so-called scenes everyone would be better off.

Perhaps I would not be standing here today if I knew today to some extent what I am learning today. Why should I have to wait for a congressional hearing to learn that? Why am I not informed as an American citizen of what is happening?

Perhaps we should have not only a Voice to Europe; we should have a Voice to America.

Mr. **Johnston**. It does make dull reading, Mr. Kroll. I will concede that to you.

One of the things that concerns me is, as you know, we seem to be winning this battle on inflation. Eighty-three percent of the social security recipients have other sources of income, which generally speaking are fixed, not cost-of-living adjustment. So they are gaining.

Just as you know social security is in the midst of a severe solvency crisis—if we simply froze cost-of-living adjustments for 18 months we would be out of that solvency crisis—just did nothing else, just said instead of the 1982 or 1983 increase we are going to postpone that—we are going to postpone the 1983 increase for 6 months and we have got social security rather than social insecurity. Would you think that would be a good idea?

Mr. **Kroll**. No—for one reason, sir. That is nothing is going to be done—I hear of nothing that will be done for that person who actually does need that cost-of-living adjustment within that 18-month period.

Mr. **Johnston**. Yes, sir. We have those programs, supplemental security income, food stamps, housing assistance, the other programs, where based on need that presumably those 17 percent would be eligible to go after.

Mr. **Kroll**. Being eligible and being proud not to accept welfare—that is what it amounts to—is another matter. There are many Americans who need the assistance of medicaid and other welfare programs but who are too proud as Americans to apply for it. And I dare say that a very small percentage of those people would indicate to any official that they are eligible and need and want that money. So that in the long run I think it would be doing more harm to those who actually need it.

Mr. **Johnston**. You would rather see the system go broke than take even the slightest step to try and make it fiscally solvent?

Mr. **Kroll**. With all due respect to you, Mr. Johnston, I am 75 years of age. In my political life, which goes back over 50 years, I have heard that same cry time and time again, that social security is going to go broke, that this Nation is going to go down the drain. And we still are here as the No. 1 country, and we will still remain as the No. 1 country in the future. I cannot for the life of me see how this Congress in its right mind, or any Congress in its right mind, or any administration, will permit social security, as broad a program as it is, to go down the drain. Something will be done—whether it be a special tax program or whether it be put into a general fund where maybe perhaps it does belong—I still will not buy the idea that it is going to go broke.

Mr. **Johnston**. So you want more taxes?

Mr. **Kroll**. I have no objection if it is really needed and if it is directed to the purpose for which the people are told it is being levied. Our problem is sometimes—and not necessarily the Congress—our problem is that we are told that we need a 1-percent or 2-percent tax for a particular purpose and it is not used for that purpose.

I remember an instance in this city alone where millions of dollars were allocated for an arena or convention hall and it stayed in the pot for 10 years without anything being done.

Mr. **Nelson**. Mr. Gephardt.

Mr. **Gephardt**. Let me just tag on to this line of questioning and say that I serve on the Social Security Subcommittee of the Ways and Means Committee. I have been on it since 1977. I voted for the tax increase in social security in 1977, which was designed to make the system whole over the next 50 years.

As the gentleman from North Carolina says, it did not do that. And I can assure you that next year we do face a problem with social security, in part because of the action of the cost-of-living escalator not only on benefits once paid but on the entry level benefit formula. Both of them have been affected significantly by the action of the cost-of-living escalator. There are many who say that the cost-of-living adjustment has overstated even price inflation over that period of time.

But understand that we are faced with the prospect of its raising taxes again, even over what is projected from the 1977 bill, or borrowing the money in general revenue, which if you look at the deficit path is an impossibility, or reducing benefits.

The question in my mind is how those benefit reductions are to be structured to keep the system whole. Because you really have Representatives faced with that dilemma.

We are all faced with it because we are all part of the Government. And together we have to find a solution.

I cannot in good conscience vote for more tax increases. I did that in 1977. I think the tax levels are now too high, not to speak of what will happen in 1985 and 1990 under the law that we passed in 1977.

The deficit path speaks for itself. If we don't get deficits down we are not going to have economic revival. So somehow together we have got to figure out what kind of benefit reductions in my mind are the fairest and the least painful that we can come up with in order to make the social security system work—put the budget over to the side—just to make the social security system work.

Mr. **KROLL**. Why do we only address ourselves to the reduction of benefits or the modification of benefits? Why don't we direct ourselves to the operation of Government itself per se? Perhaps there are other avenues within different agencies.

I have heard this administration in particular talk about doing away with the Department of Education. It is still in existence.

Mr. **GEPHARDT**. There are all kinds of things that should be done.

Mr. **KROLL**. Not that I am in favor of that, that is, doing away with the Department of Education.

Mr. **GEPHARDT**. I think social security, you would agree, should be set aside and viewed on its own in terms of its own solvency and its own trust funds. And I think that is a valuable concept we should pursue.

I don't think we ought to cut social security to reduce the deficit. If we are going to cut social security let's do it to make sure the trust funds are solvent, not only this year, but next year and the years to come.

It is there and on those questions that we together have to come up with some answers. And it is not easy, believe me. All of us have struggled with this and the other Members have struggled with it the last few years.

Mr. **KROLL**. Perhaps a suggestion that Congressman Claude Pepper made some years ago would possibly be a solution, that there be a three-way partnership between the employer, the employee, and Government in the funding of the social security program. I think he was a very strong advocate of that. It didn't take off at all in any direction other than disappearing in the Halls of Congress.

Mr. **GEPHARDT**. Once again you are talking about general revenue and using general revenues in the system. The problem with that, even if you believe in it conceptually, is that we face over the next 5 years the largest deficits the Government has ever faced.

When you talk about putting general revenues in you are really talking about borrowing more money and making the deficit situation even worse. And that is our problem.

I appreciate your being here.

Mr. **Kroll**. I think Congressman Nelson had a good suggestion, taking a part of the social security program or medicare, medicare A and B, putting them into separate funding, into general funds, so you would have a different method of setting up the benefits to the elderly people.

Mr. **Gephardt**. I would love to spend some time on this, but I don't want to dominate the discussion. I appreciate your being here.

Mr. **Kroll**. With your permission I would like to write both Congressman Johnston and Congressman Gephardt a little further in detail on this, if I may.

Mr. **Nelson**. We would appreciate that very much.

We are now going to hear from Jed Boyce, representing the veterans organizations and specifically the Disabled American Veterans.

STATEMENT OF JED BOYCE, DISABLED AMERICAN VETERANS

Mr. **Boyce**. I appreciate you inviting me over.

As I told Mr. Nelson, I made a study of the veterans, traveling up and down the east coast, I mean from New York to Florida, and throughout the West. Most of the men, taking a group of five, if you were to cut any of his pay away, and most of the time we save over years to go on a trip. And the way that the budget is set up, in reducing the 60 to 90 percent and cutting many down and taking out the unemployability is what I am getting at.

Now, if this man looses that unemployability he will not be able to travel because he will not be able to save the money. What you will be doing is cutting this man from over $1,000 a month, which not many people can live on, down to around $500 a month. What does that do to our national economy?

You take five people traveling, veterans, and their families. They are going to spend on the average over $200 just traveling down.

Now, where do we get the hurt? Well, every State that he travels through he buys gasoline, food, and what have you, which is going to affect some 400 to 500 people in his traveling. This is breaking down what he spends for gasoline, sales tax, foods, hotels, and what have you. And that is going to put quite a dent in our national economy when you figure that we have in the State of Florida alone over 1,500,000 veterans and growing at the rate of 5,000 a month. This is going to hurt.

After him losing that, what else does the veteran stand to lose that is going to hurt your economy?

Each one of you most likely has in your towns and cities somewhere along the line the veteran using the GI-insured loan, which the VA will back up. If this man loses that amount of money, a lot of them are going to lose their homes. And some of the fellows are already talking about doubling up, two families in one home. Some are saying we are going to move in with our children. And it is going to cause a hardship on the children. These are basically what the veterans are worried about.

Then let's speak of the men in the service today. I speak of past, present, and future. The men that have been in the service are retired, a lot of them on disability and what have you. What about the young man? He is in the service. He gets a blow on the head. He comes up with epilepsy. Epilepsy is about a 60-percent disability, which runs around $450 a month.

Now, under the VA regulation this man is unemployable because of the drugs he takes. He takes hard drugs, dilantin, phenobarb, and what have you. These have effects where a man's memory is poor, he cannot get along sometimes with his fellow workers. Sometimes he cannot get along with his family.

Now, if the VA takes the unemployability from this man, social security says he is not eligible for social security, what does this fellow do? The fellows are talking about getting out of the service for this reason.

Mr. Nelson knows I have my own television program. I could sit here and yack at you by the hour.

The women also are concerned about this, those that have fellows ready to go in the service. He goes in and gets hurt, it is going to make him and his family suffer. Our women are worried about this.

The sales tax in your States, a lot of you depend on that, of our veterans. And the people traveling from New York into Florida, they help us a whole lot because in our clinics and hospitals our veterans population jumps by some 50 percent in the cold weather. And I know that it works in the reverse cycle. In the hot weather down here the influx of your veterans in your States jumps a little bit because we go to where it is cool.

Gentlemen, I am not going to sit here and talk all day. I know you are running behind. So I am going to help you catch up and say thanks.

Mr. **Nelson**. Thanks, Mr. Boyce. We appreciate it very much. Mr. Boyce is a most articulate spokesman for the cause of veterans. He doesn't let too many things get past him.

We thank you for your interest in filming this hearing in its entirety.

Let me call on John Milstead. Mr. Milstead is representing the Florida Bankers Association and specifically on the question of the effect of the deficit on interest rates. We welcome you here.

STATEMENT OF JOHN MILSTEAD, EXECUTIVE VICE PRESIDENT, FLORIDA BANKERS ASSOCIATION, ACCOMPANIED BY ALBERT "BERT" McCOWEN, PRESIDENT, FLORIDA NATIONAL BANK AT ORLANDO

Mr. **Milstead**. Thank you. I have with me this morning, gentlemen, Bert McCowen, the president of Florida National Bank here in Orlando. Mr. McCowen just left a tour on our board. He is here to keep me honest in terms of speaking for the industry.

I appreciate your allowing us to put our two bits in and you gentlemen taking the time to come down here and see it from this end of the spectrum.

A little bit about our industry. In Florida today there are 491 commercial industrial banks operating in the State. There are 26 multibank holding companies. FBA represents all but one of the multibank holding companies. There are three additional commercial banks which are not members of the association.

As representatives of the banking industry in Florida, we are pleased to accept your invitation to present our views in this hearing.

In February 1981, President Reagan proposed a comprehensive four-point economic program. The plan combined reductions in the growth of Government spending and taxing, reforming, and eliminating regulations which are unnecessary and unproductive—or counterproductive—and encouraging a consistent monetary policy aimed at maintaining the purchasing power of the U.S. dollar.

Taken as a whole, this program will, in time, make important strides toward reducing the role of Government in the economic affairs of the country; will stimulate the economy to become more productive; create additional jobs; stimulate more capital investment and savings; and, gradually reduce inflationary pressures.

Since this program essentially reverses the direction of many Federal Government policies that have developed over the past 50 years, we should not expect immediate results on all fronts. Indeed, the budget cuts and tax reductions have been effective for less than 8 months.

The real impact of the fiscal stimulus will not become fully apparent until 1983 and beyond when the cumulative effects of the personal tax cuts, business tax incentives, and somewhat higher defense spending will materialize.

Through past Federal Reserve actions of restricting monetary growth, the pattern of an ever-increasing inflation rate has been reversed and the prospects for further progress appear promising. Indeed, the most recent news from the inflation front shows that producer prices rose only 7 percent last year, in sharp contrast to the double-digit advances of 11.8 percent in 1980 and 12.8 percent in 1979. At the consumer level, we clearly expect that inflation will fall further in the current year.

The U.S. economy is now in a recession. As compared to past recessions, we do not expect this one to be as severe as the average downturn. It will probably not last as long or be as deep. However, because this is the second recession in 2 years, there is considerable slack in the economy and many sectors are as depressed as they were during the steep downturn of 1973–75.

Signs of deterioration in the economy have already clearly shown themselves. For example, the unemployment rate is high. Florida and the local economy are no exception. In our opinion, lower inflation rates will in time put downward pressure on unemployment rates and interest rates.

Last week a North Carolina regional bank reduced its prime to 16 percent, which is an indicator that the predictions of lower interest rate levels by yearend is likely. The keys to stable interest rates and this turnaround, in our opinion, are for the Federal, State, and local governments to send clear signals to the money markets that government spending at all levels will not be the fuel of continuing inflation.

Couple this signal with a continual resolve by the Federal Reserve Board to keep monetary growth at a stable level and we think the economy will respond vigorously next year.

The FBA membership at its annual meeting on May 7 unanimously adopted the following resolution expressing their concern about high interest rates and national economic policy. This resolution is identical to the position of the American Bankers Association [ABA], the banking industry's national trade association. I will conclude by reading the resolution.

Thank you again for providing this forum to express the industry's views.

Florida Bankers Association Resolution

Bankers understand the ravages caused by high interest rates. We see small businesses unable to cope with the twin blows of economic recession and high rates of interest. We see farm customers having great difficulty even servicing their seasonal working lines to say nothing of meeting land or equipment acquisition debt. We see the housing and automobile industries suffering dramatically from the high cost of funds. The high cost of our deposits prevents us from providing credit at reasonable rates to these customers. It is imperative that interest rates stabilize at a lower level. This is essential to the restoration of higher economic growth and lower unemployment.

We can say with total assurance that interest rates will not drop until savers and borrowers have regained confidence in the long-term direction of our economy. It is this economic uncertainty which adds a prohibitive premium to long-term interest rates. No one will be fooled by short-term solutions or empty promises.

The Federal budget process is out of control. Credibility will only be achieved when it becomes obvious that control has been re-established. The current impasse between the Congress and the administration cannot persist. We must know what to expect for fiscal year 1983 and beyond even if the news is not entirely to everyone's liking. If either side opts out as a result of frustration or political posturing, we will all be losers.

We continue to support the original four main elements of the President's economic program. (1) Significant reductions in the rate of growth of government spending; (2) significant reductions in tax rates to stimulate saving and investment; (3) a monetary policy designed to achieve a significant and last reducing in the rate of inflation; and (4) significant reduction of the regulatory burden on businesses and individuals. We note that achievements in the banking industry in this area have been minimal.

At this juncture, three elements are necessary to a credible budget program: (1) a significant downward trend in the ratio of Government spending to GNP; (2) a significant downward trend in the absolute dollar level of the budget deficit; and (3) an explicit indication from Congress and the administration that they are willing to make hard choices on expenditures and, if necessary, taxes. If any of these elements are not achieved, any program will suffer a substantial loss in credibility. A reasonable objective for projected budget deficits has to be at least below $100 billion in fiscal year 1983 and less than $50 billion in fiscal year 1985.

The first of the three elements stated above means that the great bulk of the deficit reduction measures should come from expenditure restraint and not tax increases. Preferably, all of it should come from expenditure restraint. Willingness to limit growth in entitlements and defense expenditures is essential to achieve credibility in this area. A program meeting these criteria of credibility is a necessary prerequisite to significant reductions in interest rates. However, given the financial conditions created by past policy mistakes, we cannot be sure that such a program will actually succeed in significantly reducing interest rates, but we are confident that without these elements there is no chance of success.

We prefer that no tax increases be enacted and that all deficit reduction measures come from expenditure reductions. If this is not possible, needed revenue increases should be in the form of taxes on consumption and not saving. Excise taxes and energy taxes come closest to this criterion, and we support them if they are necessary to achieve the criteria for credibility stated above. We would oppose abandonment of the enacted tax cuts, but we believe that there should be flexibility in delaying implementation of the tax cuts if necessary to achieve the required reductions in the budget deficit.

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Members of the Florida Bankers Association by this resolution express their concern for high interest rates and support for national economic policies designed to reduce inflation and lower interest rates.

That states the position of our industry.

I would now like to say to all of you thank you for coming down and giving us an opportunity to hear what other segments of the economy feel about this situation.

[Testimony resumes on p. 71.]

[The prepared statement of Mr. Milstead with attachment follows:]

PREPARED STATEMENT OF JOHN MILSTEAD

Good morning Congressmen, Nelson, Gephardt and Johnston, ladies and gentlemen:

My name is John Milstead. I am Executive Vice President of the Florida Bankers Association. I am accompanied by Albert I. McCowen, chairman & president Florida National Bank, Orlando.

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Taken as a whole, this program will in time make important strides toward reducing the role of government in the economic affairs of the country, will stimulate the economy to become more productive, create additional jobs, stimulate more capital investment and savings, and gradually reduce inflationary pressures. Since this program essentially reverses the direction of many federal government policies that have developed over the past fifty years, we should not expect immediate results on all fronts. Indeed, the budget cuts and tax reductions have been effective for less than eight months. The real impact of the fiscal stimulus will not become fully apparent until 1983 and beyond when the cumulative effects of the personal tax cuts, business tax incentives, and somewhat higher defense spending will materialize. Through past Federal Reserve actions of restricting monetary growth, the pattern of an ever-increasing inflation rate has been reversed and the prospects for further progress appear promising. Indeed, the most recent news from the inflation front shows that producer prices rose only 7.0% last year, in sharp contrast to the double-digit advances of 11.8% in 1980 and 12.8% in 1979. At the consumer level, we clearly expect that inflation will fall further in the current year.

The U.S. economy is now in a recession. As compared to past recessions we do not expect this one to be as severe as the average downturn. It will probably not last as long or be as deep. However, because this is the second recession in two years, there is considerable slack in the economy and many sectors are as depressed as they were during the steep downturn of 1973-75. Signs of deterioration in the economy have already clearly shown themselves. For example, the unemployment rate is high. Florida and the local economy are no exception. In our opinion, lower inflation rates will in time put downward pressure on unemployment rates and interest rates. We are seeing some downward movement in rates currently. Last week a North Carolina regional bank reduced it prime to 16%, which is an indicator that the predictions of lower interest rate levels by year-end is likely. The keys to stable interest rates and this turnaround, in our opinion, are for the federal, state and local governments to send clear signals to the money markets that government spending at all levels will not be the fuel of continuing inflation. Couple this signal with a continual resolve by the Federal Reserve Board to keep monetary growth at a stable level and we think the economy will respond vigorously next year.

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(Resolution Attached)

Thank you again for providing this forum to express the industry's views.

A RESOLUTION

EXPRESSING FLORIDA BANKERS' CONCERN ABOUT HIGH INTEREST RATES AND NATIONAL ECONOMIC POLICY

Bankers understand the ravages caused by high interest rates. We see small businesses unable to cope with the twin blows of economic recession and high rates of interest. We see farm customers having great difficulty even servicing their seasonal working lines to say nothing of meeting land or equipment acquisition debt. We see the housing and automobile industries suffering dramatically from the high cost of funds. The high cost of our deposits prevents us from providing credit at reasonable rates to these customers. It is imperative that interest rates stabilize at a lower level. This is essential to the restoration of higher economic growth and lower unemployment.

We can say with total assurance that interest rates will not drop until savers and borrowers have regained confidence in the long-term direction of our economy. It is this economic uncertainty which adds a prohibitive premium to long-term interest rates. No one will be fooled by short-term solutions or empty promises.

The Federal budget process is out of control. Credibility will only be achieved when it becomes obvious that control has been reestablished. The current impasse between the Congress and the Administration cannot persist. We must know what to expect for fiscal 1983 and beyond even if the news is not entirely to everyone's liking. If either side opts out as a result of frustration or political posturing we will all be losers.

We continue to support the original four main elements of the President's economic program.

1. Significant reductions in the rate of growth of government spending;
2. Significant reductions in tax rates to stimulate saving and investment;
3. A monetary policy designed to achieve a significant and lasting reduction in the rate of inflation; and
4. Significant reduction of the regulatory burden on businesses and individuals. We note that achievements in the banking industry in this area have been minimal.

At this juncture, three elements are necessary to a credible budget program; (1) A significant downward trend in the ratio of government spending to GNP; (2) A significant downward trend in the absolute dollar level of the budget deficit; and (3) an explicit indication from Congress and the Administration that they are willing to make hard choices on expenditures and, if necessary, taxes. If any of these elements are not achieved, any program will suffer a substantial loss in credibility. A reasonable objective for projected budget deficits has to be at least below $100 billion in FY 1983 and less than $50 billion in FY 1985.

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The first of the three elements stated above means that the great bulk of the deficit reduction measures should come from expenditure restraint and not tax increases. Preferably, all of it should come from expenditure restraint. Willingness to limit growth in entitlements and defense expenditures is essential to achieve credibility in this area. A program meeting these criteria of credibility is a necessary prerequisite to significant reductions in interest rates. However, given the financial conditions created by past policy mistakes, we cannot be sure that such a program will actually succeed in significantly reducing interest rates but we are confident that without these elements there is no chance of success.

We prefer that no tax increases be enacted and that all deficit reduction measures come from expenditure reductions. If this is not possible, needed revenue increases should be in the form of taxes on consumption and not saving. Excise taxes and energy taxes come closest to this criterion, and we support them if they are necessary to achieve the criteria for credibility stated above. We would oppose abandonment of the enacted tax cuts, but we believe that there should be flexibility in delaying implementation of the tax cuts if necessary to achieve the required reductions in the budget deficit.

Members of the Florida Bankers Association by this resolution express their concern for high interest rates and support for national economic policies designed to reduce inflation and lower interest rates.

Approved by the Resolutions Committee:

C. Walter Ruckel by bz
Chairman

Approved by the Convention Assembly:

Executive Vice President

88th Annual Convention
Florida Bankers Association
Fontainebleau Hilton Hotel
Miami Beach, Florida
May 8, 1982

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Mr. **Milstead**. Mr. McCowen, do you have anything you want to add to that?

Mr. **McCowen**. No. I heard this resolution at our convention last week. I concur with it. If you folks have something to comment on.

Mr. **Nelson**. Would you identify yourself?

Mr. **McCowen**. I am Bert McCowen.

Mr. **Nelson**. Thank you. Thank you, Mr. Milstead. We appreciate it. Mr. Gephardt.

Mr. **Gephardt**. I just wondered what your thoughts were about the long-term interest rates and long-term bond market. If deficit reductions are achieved in the next few weeks or months, and if it is convincing to the money markets and to investors that that has been done and actions are taken to carry that out, how long do you think, do you have any good feeling for how long it will take to get a long-term market back? Are we at a place where it is going to take years to revive long-term markets, or is it something that can be solved in the near term?

Mr. **Milstead**. Congressmen, my feeling is that a lot of that depends on how the citizenry reacts to what you do. And one of the things I think personally that needs to happen very soon is to get together, get the two sides of this, the Congress and the administration together, and give us your formula.

The long-term interest rate market is almost a minute by minute, hour by hour kind of thing. It is going to react continuously to the various events that make up a long-term process. I think the event that needs to happen right now as indicated in the remarks are for you gentlemen to get it together and hit us all a little bit. I know there are some tax proposals that unfairly affect our industry. I didn't mention those.

We are willing to take our share. But some sort of a program that will take something from everyone, get those deficits down, and convince the public that you are on a long-term trend and convince the market that you are on a long-term trend of controlling our spending versus income and production, and that you are on a long-term trend of holding down inflation. When that trend is established, I think you will see the markets react favorably. Until then, your guess is as good as mine.

Mr. **Gephardt**. I have heard some people say we are never going to have mortgage money for houses again, those days are passed because of the new competition between institutions, and so on. That may be the case, but I don't believe it is the case. I think it is all a matter of how much savings is available to be borrowed.

If there is enough available to be borrowed, you are going to have long-term as well as short-term money. Thank you for coming here.

Mr. **Nelson**. Mr. Johnston.

Mr. **Johnston**. Mr. Milstead, in other words I don't believe Congress has any intention of complying with the Budget Act. Last week a little scenario occurred where we voted $1 billion in the form of mortgage rate buydowns for some select 74,000 people in the country. It exceeded the budget, yet it passed overwhelmingly, and this $170 million a year was allegedly going to help restore the housing industry in this country. It sent a signal to the financial markets that we were not serious about the Budget Act. Do you think we had a net gain or net loss by that action?

Mr. MILSTEAD. I think any increase in the deficit, any additional commitments to spend money or subsidize, are a negative signal to the long-term financial markets.

Mr. JOHNSTON. Do you really think the housing industry could be restored in this country on $170 million a year in mortgage buydowns?

Mr. MILSTEAD. No, sir, I think that was a Band-Aid fix. Maybe you had to do it.

Mr. JOHNSTON. We don't ever have to do it. We do it because we don't have any discipline. I will submit that to you.

Mr. NELSON. Thank you, Mr. Johnston.

Mr. Milstead, I might say in my conversations with the homebuilders, savings and loan people, that they will agree that such legislation as passed last week is only a Band-Aid approach. However, they disagree with you in that they wanted that legislation passed very vigorously, they sought to have that legislation passed because of a critical condition of their industry.

Mr. MILSTEAD. Congressmen, we are competitors of theirs. We understand some of the reasons you did it, I may have voted the same way, because they were following national policy, lending money long term at low rates. But I was asked for a personal response to what the signal was, and I think the signal was negative to the financial markets.

I don't know that you had much choice but to pass the legislation. I was not arguing against that. I may have done the same thing. But in direct response to the Congressman with regard to the long-term markets, it is negative in my opinion.

Mr. NELSON. We had a good panel earlier this morning on interest rates and housing from the realtors and from the savings and loan area. Following you, we are going to hear from the homebuilders. Thank you very much.

Robert Thornton, of Rosewood Builders, representing the Mid-Florida Homebuilders Association. He is their first vice president. We appreciate your being here today, Mr. Thornton.

STATEMENT OF ROBERT THORNTON, ROSEWOOD BUILDERS, ON BEHALF OF THE HOMEBUILDERS ASSOCIATION OF MID-FLORIDA

Mr. THORNTON. Thank you. After the comment of Congressman Gephardt, I am almost ashamed to come up here.

I am here on behalf of the Homebuilders Association of Mid-Florida. First, I would like to thank the House of Representatives for their strong support of the stimulus housing bill. We strongly supported this bill and felt it was instrumental in raising the housing industry out of its current recession.

The next issue understandably is the Federal budget. The Homebuilders Association feels it is essential that a budget compromise be reached soon, and that the compromise include reasonable budget deficits for the fiscal year 1983. We urge Congress to work toward achieving a balanced budget which we believe is necessary to get the financial markets to respond favorably to reduce interest rates.

The next issue is the tax-exempt revenue bonds. Last year Orange County had a bond issue totaling $120 million at 11½ percent. This allowed the low- and moderate-income families to be able to buy homes they were not able to buy because of the interest rates of 15 and 16 percent. This was a big boost to the housing industry.

Also, this year the Orange Country Finance Authority has a bond issue of $33 million. This is spread over a three-county area. So, in effect, it is not going to be that much for Orange County. But we still feel it is a good way for low- and moderate-income families to buy homes.

With the passage of the bill, H.R. 4717, which sets aside $14 to $17 billion from 1982 to 1985, we feel that the House Ways and Means Committee needs to look into the raising of maximum sales price and to come up with the lowest possible interest rates. This would achieve the purpose of the bond issue which is to provide housing for the low- and moderate-income families.

In closing, I would like to just tell you a little bit how the high interest rates have affected me as a small builder. Over the last 7 years we have averaged around 20 homes a year. In 1981 we built eight homes. It was reported last week we had the seventh best market in the Nation. And if we are the seventh best, I would hate to be next to the bottom.

This year so far in 1982 we have built three homes. One of these homes is not sold. It is costing us at 17 percent about $1,400 a month. This same home at 12 percent would be running around $900. So you can see it is not only affecting us, but the home buyer; it is a difference of $500 a month.

We still have demand for housing here, but people just cannot qualify for the monthly payments.

We employ around 25 subcontractors per home that we build. A lot of these subcontractors have gone out of business. If they have not gone out of business they have laid off a lot of people, so you can see not only are the builders affected. There are well-established builders in the central Florida area who have gone bankrupt.

Our association, in talking to others, there are others just treading water, trying to survive. Our association was about 1,200 members strong. We are now down to around 1,000 members. So we are losing members because they are going out of business. In closing, we just need help.

Mr. NELSON. Mr. Thornton, you have endorsed as an association the Lugar-Patterson bill. Basically, it is the Patterson bill of the House that passed the House last week. It is going to the Senate now. There is a question about whether the President plans to veto it or not.

Following that bill—which was $1 billion—will be a committee bill, which is the essence of the remainder of the Lugar-Patterson bill for fiscal year 1983 through 1985. That should be coming up on the floor within another month or so. So that legislation is having a chance, and if the vote—350 to 50—this last week is any indication, then the legislation should be progressing as you would like.

However, how that is going to work out with the White House is another question to be determined.

Any questions for Mr. Thornton?

Mr. GEPHARDT. You say this was the seventh best. How many homebuilders have gone out of business in this area in the last 2 or 3 years?

Mr. THORNTON. I don't know the exact number. I do know that members of our association, those are the only ones that we really know about, but I am sure there are others. There are others that are not doing anything, not building any houses. I have closed my office down to half a day.

Mr. GEPHARDT. Are there any movements by homebuilders to go into rehabilitating older structures as opposed to building new subdivision tract type houses? Is any of this beginning to happen?

Mr. THORNTON. As soon as the market slows down you start looking for other things to do, and remodeling is one aspect we looked into. At least I have. I am sure the others have also.

Mr. GEPHARDT. I am not saying it provides a total answer, but I know that in my area we over the years have torn down lots of structures and built new ones, which has been fine, and we have built a lot of good new housing. But I think as we get into a period where credit is tougher, we are going to really have to be looking at rehabilitation along with the building of new houses as an answer to our housing problems. I don't think we can just look at the 1950's style building of subdivisions as the way it is going to go.

Mr. THORNTON. At 17 percent, even the remodeling, you are still looking at the high interest rates, and people are scared to do anything.

Mr. GEPHARDT. I appreciate your testimony. I think all of what we have heard today goes back to the same point, and that is we have got to do something about the deficit. As Representative Johnston pointed out, the bill we passed last week is contrary to the overall effort to bring down the deficit, and if we engage in a lot of legislation like that, as Congress has been wont to do in the past, we are going to wind up with compounding our overall problem.

I think you can see the difficulty that we face. Somehow we are going to have to get that deficit pattern changed in the real world, because if we don't, there is no overall solution. That Band-Aid will quickly be torn off and won't mean anything.

I thank you for being here. I appreciate your testimony.

Mr. NELSON. Mr. Johnston.

Mr. JOHNSTON. As you know, the building industry has been given some favorable tax breaks in accelerated depreciation and credits for rehabilitating of structures 30 years of age and over. Has the industry not taken advantage of those tax breaks to pursue rehabilitation? I realize in an area like Florida, where most of your structures are relatively new, you are going to have to look for them. But is no one getting into that down here?

Mr. THORNTON. I am sure there are people getting into it. Right offhand I don't know of anybody.

Mr. JOHNSTON. You state we ought to balance the budget. What are we going to do for Braniff this week? I am sure they are going to be up in Washington. International Harvester will probably follow shortly. Maybe we should bail them out. They are having tough times. How are we going to balance the budget if we keep bailing out or subsidizing specific groups? How are we going to do it?

I am asking this of you as a representative of the homebuilders. I am not picking on you personally. I just want to know how you think we can do it, if we keep going over our budget to bail out these groups, having already given some very favorable tax advantages in the economic program last year. I have the same problem.

Mr. **Nelson**. Thank you, Mr. Thornton. We appreciate your testimony. Let's have William D. Brown.

STATEMENT OF WILLIAM D. BROWN, BILL BROWN VOLKSWAGEN, ON BEHALF OF CENTRAL FLORIDA AUTOMOBILE DEALERS ASSOCIATION

Mr. **Brown**. Thank you, gentlemen. I appreciate being here this morning.

I am William Brown; I represent the Central Florida Automobile Dealers Association. I have been a car dealer for 3 years here in central Florida. I have 21 years experience in the automobile industry.

The combined factors of inflation and high interest rates have caused a crisis for automobile dealers in the central Florida area. In recent months inflation seems to be showing signs of lessening, but interest rates continue at high levels.

Abnormally high interest rates for a sustained period of time have a double impact on dealers. We floor plan or finance our inventories. As a result, our cost of doing business increases every time the cost of borrowing goes up. That cost is ultimately borne by the consumer. In addition, we depend heavily on consumer financing in order to sell our products to buyers. If the interest rate charged to consumers by the banks and other financial institutions escalates to current levels, purchasing on credit is not only less desirable, but, for many, impossible.

I am an automobile dealer, not an economist. I can tell you the effect of the current high interest rates and inflation on my business operation is devastating. However, I cannot tell this committee what is causing these factors. It does seem to be a popular belief that large Federal deficits and the public perception of even larger deficits tends to keep interest rates at a high level.

If this premise is correct, and I believe it is, I hope that Congress will pass a responsible budget that reduces these deficits. It would be my preference to see the gap closed by limiting Government spending rather than by increasing taxes.

An early solution to these economic problems is needed by the members of our association. I urge you to take decisive action without undue delay. A long-term solution to these current problems may be of little benefit to the existing dealers. Many of our dealers need an immediate turnaround in order to remain in business.

Thank you, Mr. Chairman.

Mr. **Nelson**. Thank you very much.

Congressman Johnston leaned over to me when you made the statement it was your perception that the popular belief was that the large Federal deficits tend to keep the interest rates at a high level, and he said to me that is one of the most honest statements that he has heard in all of the budget hearings that we have had over the last 4 months.

We appreciate that. I particularly wanted your industry to testify this morning because interest rates have devastated your industry and the homebuilding industry as two of the industries that have been hardest hit, and it multiplies through the economy, all of your suppliers, not just new car dealers, but everything that goes into the makeup of an automobile, just as everything that goes into the makeup of a home ripples throughout the national economy.

Now, these colleagues on either side of me I think are dedicated to our trying to find a responsible, fair budget, and that is a big task, given all of the highly politically charged atmosphere, a suspension that exists between the two principals, namely, the President and the Speaker, and in that kind of volatility of a political environment, it is a tough task.

But it is one that we welcome the challenge, and we start on this on the floor of the House this Friday with amendments starting a week from today.

So for the sake of you all coming and participating at a most timely hearing, we appreciate it. Mr. Gephardt.

Mr. **Gephardt**. I have no questions. I appreciate very much your taking your time to come here and helping us. Thank you.

Mr. **Nelson**. Mr. Johnston.

Mr. **Johnston**. I just would ask one question. Are you finding the recession more acute in American automobiles vis-a-vis the imports?

Mr. **Brown**. No; it is traveling all the way across. Recently there has been some aid in the domestic field, the large automobiles, with gas prices going down, but the slowdown in the business and the traffic and interest in autombiles is pretty well across the board.

Mr. **Johnston**. How about the rebate programs? Are they working out?

Mr. **Brown**. For the most part they have not worked.

Mr. **Nelson**. Thank you very much, Mr. Brown. We appreciate it.

Let's have Tom Herndon, who is the director of budget for Gov. Bob Graham. In this segment we will be discussing Federalism and the general impact of the Federal budget on State planning, specifically for the State of Florida.

Mr. Herndon, we appreciate your coming from Tallahassee.

STATEMENT OF JOHN T. HERNDON, DIRECTOR, OFFICE OF PLANNING AND BUDGETING, EXECTUTIVE OFFICE OF THE GOVERNOR OF FLORIDA

Mr. **Herndon**. Thank you. I would like to welcome you to Florida. I realize you are running behind this morning, so I am going go try to cut my remarks short.

I had attempted somewhat humorously to encourage your attendance here this morning and encourage your visiting some of the attractions in the Orlando area, not just because of our interest in having you in Florida and hearing about our fiscal plight, but also because your presence at some of those attractions might help our fiscal dilemma a little bit.

But one of the attractions you will find at Disney World I think highlights the theme of my remarks, and that is, "It's a small world." I know Congressman Nelson has been there. The point I want to emphasize is that the actions you take at the congressional level obviously, just as the high interest rates and the high deficit have a ripple effect, clearly have a ripple effect on State and local governments and the private sector.

I want to skip through some of the introduction, if I may, and speak briefly about the New Federalism. The New Federalism the President was talking about is the decentralization, if you will, of programs, power, and resources back to the States. While this is not a new approach, I think there is a five-point acid test that I would like to touch on briefly that is critical from our perspective.

In order for New Federalism to have much likelihood of success I think it must meet all of these points.

The first is fairness and equity. There cannot be a disproportionate burden shared by any particular geographic region or locality at the State or local level in dealing with the New Federalism, in benefiting or being handicapped so to speak by New Federalism.

The second point is adequacy. The resources and the programs must be adequate to meet the needs of the population they are intended to serve. In many cases I think programs that were initially begun at the congressional level have over the years, like Topsy, grown and grown, and their populations and recipient groups are not necessarily the same groups originally intended to be the beneficiaries of those programs.

While we recognize clearly that the Federal Government has a problem in terms of balancing the budget, we cannot attempt to do that by asking States and local governments and the truly needy in our population to share a disproportionate burden.

Third, we must also look at New Federalism in the context of flexibility. The President has talked about flexibility and certain of the block grants enacted last year gave Florida the first flexibility we had received in federally administered programs in many, many years. Unfortunately, we now see that trend diminishing and perhaps going in the opposite direction. The recent Federal regulations carry with them very stringent Federal requirements for their administration.

In addition, the very stringent audit guidelines are not in keeping with what we understood was the original intention of block grants, that is that we were to audit block grant programs in the same manner that we do any Federal funds that come into the State. That is perfectly acceptable to us. But to set up a secondary system of auditing on top of an existing process does not seem to us to be congruent with the original purpose.

Permanence I think is one of the fundamental issues we have to be concerned about, and that was touched on earlier by a couple of speakers. The States and local governments must be assured of a certain degree of permanence. We cannot live in the most volatile economic times most of us have ever seen without some assurance that the funding process, formulas, and so forth, are going to remain relatively permanent from one year to the next, or at least that we have some sense of the permanence of change.

Finally, I think, and most importantly from our perspective, is the concept both in theory and in practice of a full and equal partnership between the States and Federal Government. We have no problem conceptually with carrying out programs that have heretofore been administered at the Federal level.

By the same token, neither the Federal Government nor the State can ignore its responsibilities by simply assuming that they will be carried out by another branch of government. In this case, the Federal Government clearly has, in our view, national responsibilities for standards of living and health, interstate commerce, transportation, defense, and I would highlight immigration as a particular problem that is affecting this State.

States and local governments have an equal responsibility in education, and so forth, that we think we can best carry out.

To share with you just very briefly the kind of impact that New Federalism and block grants and budget reductions have had on this State, which is now presently the seventh largest in the country, and the end of this decade will be the fourth largest, I think would give you some sense of our concern about the New Federalism concept and about balancing the Federal budget.

The fiscal year 1982 Federal budget initiatives have by our estimation in the current year that we are in right now reduced Federal aid to State and local governments in Florida by $500 million. That is an incredible burden for a State. Of that $500 million, $295 million of it was in local governments and approximately $215 million was to the State government. That $500 million figure does not reflect any of the income transfer payments that the Federal Government makes through veterans' benefits, social security, medicare, medicaid, and so on.

Our estimates in the document that you have before you labeled "Overview," is an estimate by our budget office and the agencies of State and local government as to the effect of the Presidential proposal presently before Congress. We realize that this is an evolutionary process, and that that proposal as reported in the New York Times is dead, nevertheless gives us a baseline for how we look at current congressional proposals.

It is our estimate if the Federal fiscal year 1983 proposals as originally proposed by the President were adopted, the Florida State government would lose another $158 million and local governments $175 million.

In total, for a 2-year period, for State and local governments, excluding transfer payments, the State of Florida would have lost $832 million in aid to State and local governments, and I can tell you as budget officer for the State that there is no way that Florida or any other State can attempt to put back into the system the kinds of dollars that I have just described.

There is no question in my mind that the experiences that Florida had last year in not funding many of the programs that the Federal Government transferred to us, are going to be repeated in every State in the country.

Finally, with respect to the New Federalism, I would want to highlight one very critical point, and this is again perhaps from a bureaucratic State and local government budgetary and planner perspective. The timing of your actions in Congress is absolutely critical to State and local governments. When the 1982 Federal fiscal year budget was adopted the States were already 3 to 4 months into their fiscal year. We had to adjust to a $500 million loss in revenue during the time that our economy was depressed and after our budgets were in place.

In some cases I have heard it described as trying to rebuild a moving automobile. In this case we were taking off a couple of wheels and changing from an eight to a six cylinder. That is very difficult when the car is moving 55 miles an hour. We are now 10 months into our State fiscal year. We have the fourth continuing resolution at the congressional level. Presumably, that is the last one we will have for this year, and it will give us some permanance until October.

In the meantime, however, we have the House bill that is going to the floor for markup at the end of this week, the Senate bill as I understand is being marked up today on the floor. The deficit totals differ in both cases. The benefit programs differ in both cases. Defense reductions are different in both cases. The Senate proposes a $40 billion modification of the social security program which concerns us very greatly in this State, and all of these we presume will not be ironed out until September, October at the earliest.

Once again Florida and all the States will be in the predicament of trying to take that six-cylinder automobile perhaps down to a four cylinder without an opportunity to really understand what is happening to us, and the time to intelligently plan for the future. I think that is something all of us need to take into consideration.

Both States and Federal Government obviously are interested in balancing the budget and strengthening our economy, defending our country, and serving those who must be assisted. It is a small world, and we have to work together to avoid major disruptions in any segment of our economy. Thank you.

[Testimony resumes on p. 90.]

[The prepared statement of Mr. Herndon follows:]

Prepared Statement of John T. (Tom) Herndon

INTRODUCTION:

CONGRESSMAN NELSON, ON BEHALF OF GOVERNOR GRAHAM, I WOULD LIKE TO EXTEND OUR APPRECIATION FOR THE EFFORT YOU HAVE EXPENDED TO CONVENE A MEETING OF THE HOUSE BUDGET COMMITTEE HERE IN THE STATE OF FLORIDA. CONGRESSMAN GEPHART AND CONGRESSMAN JOHNSTON, WE APPRECIATE YOUR OBVIOUS INTEREST IN FLORIDA'S REACTION TO THE FEDERAL BUDGETARY INITIATIVES PREVIOUSLY ENACTED AND NOW BEING DISCUSSED IN CONGRESS. YOUR PRESENCE HERE IN ORLANDO SYMBOLIZES THE IMPORTANCE OF OUR STATE-FEDERAL PARTNERSHIP. FURTHERMORE, IN THESE UNCERTAIN ECONOMIC TIMES WE APPRECIATE YOUR VISITING OUR STATE AND HOPE YOU WILL HAVE THE CHANCE TO SPEND SOME MONEY AT THE MANY ATTRACTIONS THROUGHOUT THE ORLANDO AREA.

ONE PARTICULAR DISNEY ATTRACTION, DESCRIBES THE THEME OF MY REMARKS. THAT ATTRACTION, "IT'S A SMALL WORLD," HIGHLIGHTS THE NECESSARY INTER-RELATIONSHIP OF GOVERNMENTS WHICH MUST BE NURTURED IF GOVERNMENTS AT ALL LEVELS ARE TO FUNCTION BEST IN THEIR ROLE AS SERVANTS OF THE PUBLIC. YOUR BEING HERE TODAY EXEMPLIFIES YOUR REALIZATION THAT THE FEDERAL BUDGET AND THE BUDGETS OF THE INDIVIDUAL STATES ARE INEXORABLY INTERTWINED.

IN THAT LIGHT, YOUR WILLINGNESS TO TAKE TESTIMONY IN A STATE THAT HAS BEEN SEVERELY IMPACTED BY FEDERAL BUDGETARY INITIATIVES IS BOTH LAUDABLE AND, IN OUR OPINION, NECESSARY.

NEW FEDERALISM INTRODUCTION:

THE BASIC CONCEPT OF SEPARATION OF STATE AND FEDERAL POWERS AND RESPONSIBILITIES IS NOT A NEW ONE. IT IS, IN FACT, A BASIC CORNERSTONE OF OUR DEMOCRACY.

SINCE THE EARLY 1950'S AT LEAST FOUR FORMAL ATTEMPTS HAVE BEEN MADE TO REALIGN THE RESPONSIBILITIES OF STATE AND FEDERAL GOVERNMENTS. THE HOOVER COMMISSION, THE KESTNBAUM COMMISSION, AND THE JOINT FEDERAL-STATE ACTION COMMITTEE WERE ALL CHARGED WITH INVESTIGATING THE POTENTIAL OF DECENTRALIZING FEDERAL ACTIVITIES THAT WERE MORE PROPERLY WITHIN THE SCOPE AND DOMAIN OF STATE AND LOCAL GOVERNMENTS.

MOST RECENTLY THE FEDERAL ADVISORY COMMISSION ON INTERGOVERNMENTAL RELATIONS HAS PUBLISHED IN-DEPTH FEDERALISM STUDIES, WHICH CLEARLY INDICATE THE POSITIVE VALUE OF DECENTRALIZED RESPONSIBILITIES.

DURING THE SPAN OF THE 32 YEARS WHICH COVERED THOSE EFFORTS, HOWEVER, THE FEDERAL GRANT-IN-AID SYSTEM HAS EXPLODED. A 300% INCREASE OF FEDERAL PROGRAMS WITH AN ASSOCIATED INCREASE OF 1,300% IN RELATED EXPENDITURES HAS SERVED TO FURTHER INTENSIFY AND INCREASE THE STATE-FEDERAL DICHOTOMY.

SINCE 1950 A REVERSAL IN CONGRESS' VIEW OF WHO SHOULD RUN FEDERALLY FUNDED PROGRAMS HAS ALSO TAKEN PLACE. WHILE CONGRESS ONCE HELD THAT THE FEDERAL GOVERNMENT SHOULD ADMINISTER FEDERAL PROGRAMS, A SHIFT TO DISSEMINATION OF ADMINISTRATIVE RESPONSIBILITY APPEARS TO HAVE TAKEN PLACE.

ON JANUARY 26, 1982 PRESIDENT REAGAN CRYSTALIZED THE "NEW FEDERALISM" SPIRIT BY INTRODUCING A MODERN PROPOSAL WHICH WOULD ATTEMPT TO CLEARLY ASSIGN GOVERNMENTAL RESPONSIBILITIES TO THOSE BEST ABLE TO EFFICIENTLY AND EFFECTIVELY ADMINISTER PUBLIC PROGRAMS.

WITH THE WORDS, "TOGETHER, AFTER 50 YEARS OF TAKING POWER FROM THE PEOPLE IN THEIR STATE AND LOCAL COMMUNITIES, WE HAVE STARTED RETURNING POWER AND RESOURCES TO THEM," THE PRESIDENT COMMITTED HIS ADMINISTRATION TO ALLOWING STATE AND LOCAL GOVERNMENTS THE LATITUDE TO ADDRESS THEIR RESPECTIVE NEEDS AT THAT LEVEL BEST SUITED TO IDENTIFYING AND CARING FOR THEIR DISTINCT REQUIREMENTS AND MEETING THE NEEDS OF THEIR CONSTITUENCIES.

FLORIDA WELCOMES THIS APPROACH. FLORIDA WELCOMES A CLEAR ASSIGNMENT OF RESPONSIBILITY, EITHER TO LOCAL GOVERNMENTS, STATE GOVERNMENTS, OR FEDERAL GOVERNMENT.

5-POINT ACID TEST:

IN OUR VIEW, HOWEVER, THE ADMINISTRATION'S NEW FEDERALISM PROPOSAL MUST MEET A FIVE POINT TEST BEFORE FOCUSED FISCAL AND ADMINISTRATIVE RESPONSIBILITY IS ACCEPTABLE TO STATES AND, THEREFORE, BECOMES REALITY.

THIS FIVE POINT TEST CONSISTS OF:

- FAIRNESS/EQUITY
- ADEQUACY
- FLEXIBILITY
- PERMANENCE
- A FULL AND EQUAL PARTNERSHIP

IN TERMS OF FAIRNESS AND EQUITY, NO STATE OR REGION MUST BEAR A DISPROPORTIONATE SHARE OF THE BURDEN. TO PENALIZE ANY STATE OR LOCALITY ENDANGERS BOTH THE LAUDABLE PROGRAMS WHICH MAKE UP NEW FEDERALISM AND THE SUCCESS OF "NEW FEDERALISM" ITSELF.

AN EXAMPLE OF UNFAIRNESS AND INEQUITY WAS THE ORIGINAL "SWAP" PROPOSAL. ALL 50 STATES WOULD HAVE BEEN ASKED TO ASSUME THE RESPONSIBILITIES FOR THE AFDC AND FOOD STAMP PROGRAMS, YET 25 STATES WOULD HAVE BEEN PENALIZED FOR DOING SO. FLORIDA WOULD HAVE BEEN A $400 MILLION LOSER. NORTH CAROLINA WOULD HAVE FACED A FUNDING DEFICIT OF OVER $150 MILLION. AND, MISSOURI WOULD HAVE HAD TO ABSORB A NEARLY $75 MILLION SHORTFALL.

THE ADMINISTRATION AND CONGRESS MUST ADDRESS THE ISSUE OF FAIRNESS AND EQUITY AND ENSURE THAT THESE BASIC CONCEPTS EXIST BETWEEN STATES, LOCALITIES, AND OUR RESPECTIVE CLIENT POPULATION.

ADEQUACY OF FUNDING IS ANOTHER CENTRAL ISSUE WHICH MUST DEMAND EVERYONE'S ATTENTION. THE BALANCING OF THE FEDERAL BUDGET CANNOT BE BORNE SOLELY BY THE STATES AND THE INDIVIDUALS WHO ARE MOST IN NEED OF SERVICES. A FEDERAL INITIATIVE WHICH DRASTICALLY REDUCES OR TOTALLY ELIMINATES FUNDING FOR FEDERALLY CREATED PROGRAMS MUST NOT BE JUSTIFIED OR GLOSSED OVER BY PLACING RESPONSIBILITY, WITHOUT RESOURCES, ON THE STATES. THE NEEDS OF MOST TRULY NEEDY RECIPIENTS PERSIST AND ADEQUATE FUNDING MUST BE AVAILABLE TO MEET THOSE NEEDS REGARDLESS OF WHICH JURISDICTION IS ADMINISTRATIVELY RESPONSIBLE.

THE DEFINITION OF "ADEQUATE" PRESENTS BOTH STATE AND FEDERAL ADMINISTRATORS, WITH AN OPPORTUNITY TO BEST UTILIZE THE HARD-EARNED MONEY OF THE NATION'S TAXPAYERS. "ADEQUATE" FUNDING

MUST BE VIEWED IN TERMS OF THAT AMOUNT OF MONEY NEEDED TO ACCOMPLISH THE GOALS OF NECESSARY PROGRAMS, FOR THE TRULY NEEDY. THIS OPPORTUNITY TO REDUCE WASTE, SIFT OUT FRAUD, AND STREAMLINE ADMINISTRATION WILL ALLOW US TO REALIZE THAT ADEQUATE FUNDING MAY BE FUNDING AT A LEVEL WHICH IS BELOW PRESENT LEVELS. WE, BOTH STATE AND FEDERAL POLICY MAKERS, MUST, THEREFORE, STRIVE TO BEST UTILIZE OUR FUNDING. IN THIS WAY WE CAN REDUCE THE AMOUNT WHICH IS CONSIDERED ADEQUATE, THEREBY REDUCING SPENDING, WHILE PROVIDING NECESSARY SERVICES.

IN ORDER THAT STATES MIGHT BE CAPABLE OF BEST UTILIZING THE AVAILABLE FUNDS, THE FEDERAL GOVERNMENT, WHEN IT TURNS OVER ADMINISTRATIVE RESPONSIBILITIES TO THE STATES, MUST ALSO TURN OVER THE AUTHORITY AND FLEXIBILITY NECESSARY TO PROPERLY INITIATE AND CONTINUE TO ADMINISTER THE PROGRAMS. IT IS INCONGRUOUS AND SELF-DEFEATING TO ASK STATES TO BE WHOLLY RESPONSIBLE FOR THE ADMINISTRATION OF WHAT WOULD BECOME STATE PROGRAMS, YET TIE THEIR HANDS WITH FEDERAL GUIDELINES. SUCH A PROPOSITION WOULD QUICKLY ERODE THE FOUNDATION OF THE NEW FEDERALISM.

GREAT STRIDES HAVE BEEN MADE IN TERMS OF FLEXIBILITY. THE NINE BLOCK GRANTS INITIATED IN FFY 1982 PROMISE THE LATITUDE STATES NEED TO ACCOMPLISH THE OBJECTIVE OF THE BLOCK GRANTS. GREAT CARE, HOWEVER, MUST BE EXERCISED IN ORDER TO STEM WHAT APPEARS TO BE A REVERSAL OF THIS GAIN. RECENTLY, STRICT GUIDELINES WERE ISSUED FOR THE COMMUNITY DEVELOPMENT BLOCK GRANT. THE EFFECT OF THESE GUIDELINES IS TO FORCE THE STATES TO ADMINISTER WHAT WAS TO BE A STATE PROGRAM ACCORDING TO

STRINGENT FEDERAL GUIDELINES. THIS APPROACH IS UNACCEPTABLE.

THE RECENT ISSUING OF STRINGENT AUDIT GUIDELINE PROPOSALS ALSO CONTRADICTS THE ORIGINAL INTENT OF THE BLOCK GRANTS. STATES WOULD BE MANDATED TO MANAGE THE BLOCK GRANT FUNDS UNDER STRICT FEDERAL REGULATION. THE ORIGINAL AUDIT CONCEPT STATED THAT BLOCK GRANT FUNDS WOULD BE SCRUTINIZED IN THE SAME MANNER THAT ALL OTHER STATE FUNDS ARE REVIEWED. THIS FLEXIBILITY, AND TRUST, IS DESIRABLE FROM BOTH THE STATE AND THE FEDERAL STANDPOINT.

ONCE THE ADEQUACY OF RESOURCES AND FLEXIBILITY OF ADMINISTRATION BECOME REALITY, THE STATES MUST BE ASSURED OF PERMANENCE OF FINANCING AND FEDERAL NON-INTERVENTION. THE STATES CANNOT BE EXPECTED TO INSTITUTE LONG RANGE PLANNING AND BUDGETING WITHOUT A SENSE OF PERMANENCE.

THE LAST TEST OF NEW FEDERALISM IS ONE OF THE MOST ESSENTIAL. A FULL AND EQUAL PARTNERSHIP BETWEEN THE STATES AND THE FEDERAL GOVERNMENT WILL BE THE STRONGEST POINT WHICH ENSURES THE VIABILITY OF THE CONCEPT AS WELL AS THE ULTIMATE WORKABILITY OF THE INITIATIVE.

THE MAJOR PREMISE UNDERLYING NEW FEDERALISM IS THAT STATES WILL ASSUME FEDERAL PROGRAMS WHICH CAN BETTER BE CARRIED OUT AT THE STATE AND LOCAL LEVELS. IN ACCEPTING THIS RESPONSIBILITY, THE STATES HAVE THE RIGHT TO EXPECT THE FEDERAL GOVERNMENT TO FULLY ACCEPT THOSE RESPONSIBILITIES WHICH ARE NATIONAL IN NATURE AND ARE MOST ADEQUATELY ADMINISTERED AT THE FEDERAL LEVEL.

SINCE STATES CANNOT ASSUME BOTH STATE AND NATIONAL BURDENS AND REMAIN SOLVENT, STATE AND FEDERAL RESPONSIBILITIES MUST BE CLEARLY DEFINED AND APPROPRIATELY ADDRESSED.

ADDITIONALLY, NEITHER GOVERNMENTAL ENTITY CAN BE RELIEVED OF ITS RESPONSIBILITIES BY A SIMPLE WILLING OF THE BURDEN ON TO THE OTHER.

MINIMUM STANDARDS OF LIVING AND HEALTH; INTERSTATE TRANSPORTATION; DEFENSE; AND IMMIGRATION ARE EXAMPLES OF THOSE RESPONSIBILITIES WHICH BY THEIR NATURE CAN AND MUST REMAIN THE PROPER FUNCTION OF THE FEDERAL GOVERNMENT.

PROGRAMS OF STATE AND LOCAL INTEREST -- EDUCATION FOR INSTANCE -- CAN, AND SHOULD BE, THE RESPONSIBILITY OF THE STATE OR LOCAL GOVERNMENT ENTITY BEST SUITED AND ABLE TO PROPERLY ADMINISTER THE PROGRAM.

BUDGETARY IMPLICATIONS OF NEW FEDERALISM:

THE NUTS AND BOLTS OF THE NEW FEDERALISM, AS A CONCEPT, ARE CONTAINED IN THE FEDERAL BUDGETARY INITIATIVES NOW BEING DEBATED IN WASHINGTON. THE NEW FEDERALISM AND THE FFY 1983 BUDGET CANNOT BE SEPARATED.

THE FACT THAT LAST YEAR OVER HALF THE STATES HAD TO RAISE TAXES IN THE SHADOW OF FEDERAL BUDGETARY REDUCTION ARGUES ELOQUENTLY FOR THE INTER-RELATIONSHIP BETWEEN STATE AND FEDERAL FINANCES.

IN FLORIDA, THE FFY 1982 FEDERAL BUDGETARY INITIATIVES RESULTED IN APPROXIMATELY $500 MILLION OF LOSSES IN FEDERAL FUNDING.

OF THE $500 MILLION REDUCTION IN FFY 1982, LOCAL GOVERNMENTS WERE FORCED TO ABSORB APPROXIMATELY $295 MILLION. CLEARLY IT IS EVIDENT THAT NO ONE IS IMMUNE TO FEDERAL CUTBACKS.

ADDITIONALLY, THIS $500 MILLION DOES NOT REFLECT THE IMPACT ON INDIVIDUAL FLORIDIANS WHO RECEIVE MONEY DIRECTLY FROM THE FEDERAL GOVERNMENT.

CUTS IN FFY 1982 OF $48 MILLION IN HUMAN SERVICES, $56 MILLION IN EDUCATION, OVER $10 MILLION FOR TRANSPORTATION, AND $34 MILLION IN LABOR AND EMPLOYMENT PROGRAMS PROMPTS US TO CAUTIOUSLY REVIEW THE IMPLICATIONS OF FUTURE BUDGETARY INITIATIVES.

IF FLORIDA WERE TO EXPERIENCE THE REDUCTIONS ORIGINALLY PROPOSED BY THE PRESIDENT FOR FFY 1983 OUR PRELIMINARY ESTIMATE REVEALS A LOSS TO FLORIDA STATE GOVERNMENT OF APPROXIMATELY $158 MILLION. IF WE CAN ASSUME THAT AS IN FFY 1982 LOCAL LOSSES WILL BE 10% GREATER THAN STATE GOVERNMENT LOSSES, WE ARE SPEAKING OF A PROJECTED REDUCTION IN FFY 1983 FOR LOCAL GOVERNMENTS OF $174 MILLION. THE TOTAL STATEWIDE PROJECTED FFY 1983 IMPACT, THEREFORE, WOULD BE IN THE NEIGHBORHOOD OF $332 MILLION.

THE $48 MILLION REDUCTION IN FFY 1982 FOR HUMAN SERVICES WOULD BE COMPOUNDED BY A $52 MILLION LOSS IN FFY 1983. THIS HAS THE CUMMULATIVE EFFECT OF REDUCING PROGRAMMATIC FUNDING BY $832 MILLION FOR A TWO YEAR PERIOD. EDUCATION'S $56 MILLION CUT IN FFY 1982 WOULD BE FURTHER EXACERBATED BY A $74 MILLION LOSS IN FFY 1983 FOR A TWO YEAR TOTAL OF $130 MILLION. TRANSPORTATION WOULD FACE A $19 MILLION REDUCTION IN FFY 1983, WHICH, WHEN ADDED TO ITS FFY 1982 REDUCTION, PRODUCES A TWO YEAR REDUCTION OF $29 MILLION.

THE FEDERAL FUNDING OVERVIEWS WHICH I HAVE MADE AVAILABLE TO THE COMMITTEE MORE COMPLETELY DISPLAYS THE IMPACT OF THE FFY 1983 BUDGETARY INITIATIVES INTRODUCED BY THE PRESIDENT.

WE REALIZE THAT THIS IS NOT THE BOTTOM LINE. BUDGETARY ALTERNATIVES ARE NOW BEING OFFERED AND DEBATED IN CONGRESS. FLORIDA WILL CONTINUE TO ANALYZE THESE NEW PROPOSALS WITH GREAT INTEREST.

CONCLUSION:

IN CLOSING, I URGE YOU, IN FLORIDA AND THE NATION'S INTEREST, TO CONDUCT BUDGETARY HEARINGS AND NEGOTIATIONS IN A NON-PARTISAN FASHION WHICH INCLUDES A PARTNERSHIP BETWEEN STATE AND FEDERAL INTERESTS.

IN ADDITION AND PERHAPS THIS IS A MINOR POINT, BUT STATE AND LOCAL GOVERNMENTS MUST BE GIVEN THE TIME TO ADJUST. LAST YEAR CONGRESS ENACTED BUDGET CUTS THREE MONTHS AFTER STATE BUDGETS WERE IN PLACE. FURTHERMORE, WE ARE NOW TEN MONTHS INTO STATE FISCAL YEAR AND CONGRESS HAS ENACTED FOUR SEPARATE CONTINUING RESOLUTIONS.

THE VERY NATURE OF THE DEMOCRATIC PROCESS COMPLICATES THE SITUATION AND DRAMATICALLY DEPICTS THE NEED FOR LEAD TIME.

THE DEMOCRATIC PROCESS INVITES DIFFERING VIEWS. AS FAR AS THE FEDERAL BUDGET IS CONCERNED THIS MEANS WE ARE NOW SPEAKING ABOUT THE PRESIDENT'S FEBRUARY 8TH PROPOSAL, A HOUSE DEMOCRATIC PROPOSAL, AND A SENATE REPUBLICAN PROPOSAL.

DEFICIT TOTALS DIFFER BY $3 BILLION; REDUCTIONS IN BENEFIT PROGRAMS DIFFER BY $19 BILLION; DEFENSE REDUCTIONS PROJECTIONS DIFFER BY $25 BILLION; AND, WHILE THE HOUSE PROPOSES TO PRESERVE SOCIAL SECURITY, THE SENATE PROPOSED A $40 BILLION MODIFICATION OVER THE NEXT THREE YEARS.

THESE DIFFERENCES, AND OTHERS, WILL NOT BE IRONED OUT UNTIL SEPTEMBER AT THE EARLIEST.

GRANTED, THIS HAS BEEN THE STANDARD COURSE OF ACTION OVER THE YEARS. HOWEVER, THE TIMING IS NOW MADE VERY CRUCIAL BY THE MAGNITUDE OF THE ACTIONS. IN THE PAST STATES WERE ABLE TO DEAL WITH MINOR ADJUSTMENTS IN A VERY SHORT AMOUNT OF TIME, AND SINCE THESE ADJUSTMENTS WERE USUALLY INCREASES IN FUNDING, WE WERE ABLE TO DEAL WITH THEM QUITE COMFORTABLY. HOWEVER, THE DRASTIC IMPACT OF THE RECENT AND PROPOSED FUTURE REDUCTIONS POSES MAJOR PROBLEMS FOR STATE PLANNING AND BUDGETING EFFORTS.

BOTH STATE AND FEDERAL PARTIES ARE INTERESTED IN BALANCING THE BUDGET, IN STRENGTHENING OUR ECONOMY, DEFENDING OUR COUNTRY AND IN SERVING THOSE WHO MUST BE ASSISTED.

IT IS "A SMALL, SMALL WORLD," AND WE MUST WORK COLLABORATIVELY TO AVOID MAJOR DISRUPTION IN OUR INTERDEPENDENT STATE/FEDERAL PARTNERSHIP.

Mr. **Nelson**. Thank you, Mr. Herndon.

I would like to amplify on what you have said. You have made a good case for funding to the State and the responsibility of the Federal Government. I would like to expand on a comment you made where I feel there has been an unfair abdication of Federal responsibility. That is the area of flowing from the State of Florida and local governments to the refugees.

The fact that refugees are here is a consequence of a national policy, and, as a result of that Federal policy on refugees, it is unfair for the Federal Government to expect State and local governments to pick up the tab. Yet, we continually have the administration pushing us to that position.

You have hit the problem on the head, and I appreciate your comments. I appreciate your coming here to, represent the Governor.

By the way, if you are the director of budget for the State of Florida, does that mean you are the David Stockman of Florida?

Mr. **Herndon**. I have avoided that label as much as I possibly can over the last 2 years. I do have the same responsibilities as far as Florida is concerned as Mr. Stockman.

Mr. **Nelson**. Mr. Gephardt.

Mr. **Gephardt**. I also appreciate your being here and your testimony.

I would like to ask about the Federalism proposal. I know that the Governors for a long time have had a different approach on Federalism, which I think is a more constructive approach, where they would be willing to take on some total responsibility for transportation or education or social services if the Federal Government would take on individual income maintenance totally, which is a little different mission than the President has proposed.

I have been looking at ways to do that. I have found that it is complicated and difficult, as everything is, but if that were to be done, and the Federal Government were to take medicaid, AFDC, totally, along with food stamps, do you think we could work it out so that it would be undertaken by the State governments, knowing you are always going to have inequities, because these programs have different effects in different places?

So when you take totally medicaid and AFDC, you have a certain effect in certain States, and when you send back all of social services or transportation or law enforcement, or these other things, you are going to have different effects out in the States. Do you think we could work something out along that line?

Mr. **Herndon**. Congressman, I have no doubt in my mind that an equitable distribution can be worked out.

I think if you can consciously deal with the fundamental policy question of what is the role of the State and what is the role of the Federal Government, as I have tried to highlight here, it is our belief, and I would think the belief generally of most Governors through the association, that the fundamental role of the Federal

Government is to provide minimum protection in certain critical areas, income maintenance, health care, assistance to our elderly, immigration. And that is a policy direction that is agreed upon by the congressional Members in both Houses.

I think it inexorably leads you to the conclusion that the AFDC program, medicaid, medicare programs, even in the AFDC program the Federal Government is probably providing the lion's share of the dollars to most States, that it leads you to the conclusion that that makes good policy sense, to let the States have the option, if you will, to assume the responsibility for those programs that are more appropriately their responsibility.

We have no problem with administering our educational system in this State. It is a State and local partnership, with district school boards, elected officials. By the same token we would agree to take on transportation responsibilities, and a whole host of other responsibilities.

I know the National Governors' Association has looked at that approach, both from an economics point of view and from a basic policy question, and generally has continued to support that basic redistribution. In the last 3 months or so they have been trying to work with representatives from the White House, from the administration, to see if there isn't some middle ground, because the administration obviously has taken a contrary view.

We would still be more than willing to pursue that approach as you have outlined.

Mr. Gephardt. I thank you for being here, and look forward to working on something that would go along that line. Thank you very much.

Mr. Nelson. Thank you, Mr. Herndon.

Our next panel, now that we have had the testimony from the State level, is concerning the local level of government. And I would like for all of the people on this panel to please come up and join us up here at the front. We will take you in the order on the schedule.

We have Jim Harris, the county administrator of Orange County; John Hannah, the director of the development division of Brevard County; Ron Rogers, administrative assistant of the town of Eatonville; and Sam Ackley, city manager of Kissimmee.

Mr. Harris, we will start with you. We are delighted to have you and are looking forward to your testimony.

STATEMENT OF JIM HARRIS, COUNTY ADMINISTRATOR, ORANGE COUNTY, FLA.

Mr. Harris. Thank you.

My presentation to you this morning grows directly from two items in the morning Orlando Sentinel. They are typical of the problems of growth and development in this community.

The first is a headline article which notes the continued population growth of Florida, some 4½ percent in a total population growth up to 10,138,000, one of the highest in the country.

This follows the recent census report where Florida grew by 3 million people during the 1970's.

Second, a small display advertisement in the morning paper that simply says the Orange County government is planning a new sewer plant, and we are inviting those that might be interested in participating in it to contact us at a cost of $1,600 per 300 gallons of sewage.

The two items tell the story of growth and the cost of the infrastructure to serve growth. But let me amplify on both points for a moment.

This area is growing. It is obvious it is growing at a staggering rate, both permanent and tourist population. We now have some 486,000 people living in Orange County. But our planning department says that will be 700,000 people by 1990. And that is only 8 years away.

In addition, on a good summer day in the mideighties, we are going to have about a quarter of a million tourists here. We want them here. But they are almost a permanent revolving population. They are going to be here to see Disneyworld, to see an expanded Sea World, to see Universal City, to see Cape Kennedy, to see Cypress Gardens, Circus World, to see Wet and Wild, Agri-Plex, to see a new convention and civic center.

In order to offset our dependence on tourism, the community is also seeking light industry and professional development. And we have been singularly, I think, successful in that effort. Western Electric and Westinghouse and Burroughs, Martin-Marietta announcing a new plant here of some 7,200 employees. Harcourt, Brace and Sovanowich moving a large publishing office down from New York, over 40 other expansions or smaller new developments here in the area in the past 2 years.

It is a good picture. It is the kind of family entertainment center and light industry, professional growth that any community could be proud of.

But there are major problems with that kind of growth. This community is determined that the new growth will pay its own way. We are not offering tax abatement programs. We are not offering reductions in sewer rates. And we are requiring that new developments build internal roads and drainage systems, and contribute through special taxing districts to the overall needs of their particular area.

The level of sophistication in local government planning has grown by geometric proportions in the past decade, with growth management plans, impact modeling by computers, small area plans, long-range capital budgeting and a variety of other devices.

In 1980, the connection fees to the sewer system in 1982 were $400 for 300 gallons—it is now $1,500. And that grows out of some rather sophisticated studies on what does it cost to build and operate a plant, what does it cost to dispose of that treated sewage in an environmentally sound manner. We now require retention ponds and subdivision drainage systems and a long list of other improvements.

So what is the problem? It is simply that we plan for the future in a time of great uncertainty for both Federal participation in the cost and in Federal regulations. We are like a businessman asked to produce a balance sheet in the black, but where vital elements of the revenue and expenditure side of the ledger are blanked out. We cannot produce the local cost unless we know the overall system of the Federal, State, and local governments.

Growth of the nature being experienced here produces a need for better roads, expanded jails, more sewer and water systems, more facilities of virtually every type. And I will not even touch on the need for human service programs such as indigent health care or mental health.

Much of the development of the fifties, sixties, and even of the seventies did not meet the more stringent environmental regulations of the eighties and must be retrofitted at major costs. The combination of uncertainty on Federal revenues and of the regulations produces an impossible situation where no matter how good you plan for the future, your plan is uncertain.

Let me give you three specifics of revenue.

Federal revenue sharing. It produces $5 million a year for the Orange County government and is a source of money for roads, sidewalks, drainage systems, and many other needs of the community. Last year we were able to transfer $2,700,000 of that amount to capital improvements. We are now approving the last year of the entitlement period. Is it to be extended? If it is to be extended, on what basis, what do we plan for?

Second, community development produces some $4.2 million a year for a variety of neighborhood improvements, largely roads, sidewalks, water and sewer lines, drainage improvements, and neighborhood service centers. Is it to continue, and if so, on what basis?

The 201 program for sewers is a major question. Only last Friday the city of Orlando and Orange County handed in applications for over $60 million in 201 funds to remove existing treated sewage effluent from Shingle Creek on the west side of this community, something we are required to do by Federal consent decrees, and State and Federal regulations. We are not talking about growth, but about effluent which has been flowing into this stream since the 1960's. The rules have changed. But will any Federal funds be available, even at a 55-percent level of funding instead of the former 75 percent, to assist in much of this project of land spreading or percolation ponds and the transmission lines and purification stations to take the effluent many miles to good soil?

The county is now studying an increase in monthly service sewer charges. The question is not so much whether they will go up, but how much. The availability of Federal funds is a vital ingredient in that financial plan. We simply do not know what 1983 or 1984, or 1985, or on beyond holds as even possibilities.

I could go on, but the point I wish to make is quite simple. I will not continue a recitation of examples.

We can and must plan ahead for both development standards and for financial planning. But the lack of Federal policies on a variety of financial programs is a major difficulty at all levels of government.

We can anticipate a debate on New Federalism continuing for sometime, possibly for years. We can anticipate the discussion on Federal revenue sharing and the other programs to reach a crescendo level in 1983 and beyond. But here and elsewhere in the country, the beat goes on. Decisions must be made for the future of the community. And the absence of a clear-cut understandable set of Federal policies means that many decisions must be made in a twilight zone.

The great English poet Matthew Arnold spoke once of a darkening plain on which confused armies struggled. I might say, by the way, he mentioned ignorant armies, but I struck that out.

We see ourselves as both participants and observers of such a clash. But we cannot wait to discover the victor at some long off dawn. We need the assistance of the Federal Government for the infrastructure need of the community and to meet the high environmental standards for water and air. But if the answer is simply no, it is better to know that now then to grope in the unknown.

My plea to you is not so much for funds, but for policies. We need both. But the policy, if it is clear cut, will lead to decisions no matter how hard they may be. In the absence of such policies, we cannot plan on a firm foundation, but instead build on quicksand.

I appreciate the opportunity to appear here for a few minutes. This is a wonderful area with a great future. But we cannot fully realize that future without direction and a part of that direction must come from Washington, D.C. Thank you.

Mr. NELSON. Mr. Harris, that was very well stated.

We went through part of this policy discussion last week in committee on the question of infrastructure. We might be having an infrastructure amendment offered a week from today on the floor. There was an addition of about $200 million added in by Adam Benjamin in an amendment with regard to transportation.

You have hit on some very appropriate questions that have to be answered—and hitting at the idea of policy as well as money is most appropriate.

Mr. HARRIS. When we start looking at monthly sewer charges and judging that over a number of years, one of the major questions is your capital, what is it going to cost you. When you don't know if Federal money is even going to be available, you have no idea what to build into those rates. It is ridiculous to charge your people service charges or taxes. On the other hand, we are looking at issuing 25- or 30-year bonds. You have to plan ahead. But you cannot plan ahead if you don't know you even have a possibility of achieving some Federal money.

Frankly, as one practitioner at the local level, I would rather have a clear cut no. At least we would know that. But when you know nothing, as the sergeant used to say in Hogan's Heroes, "I know nothing," then you really are struggling.

Mr. NELSON. Well said. John Hannah from Brevard County.

STATEMENT OF JOHN HANNAH, DEVELOPMENT SERVICES DIVISION COORDINATOR, BREVARD COUNTY, FLA.

Mr. HANNAH. Congressman, Mr. Harris is always a hard act to follow.

I am John Hannah, Development Services Division coordinator for Brevard County, Fla. In this capacity I am responsible for planning, zoning, building, county construction, the Brevard area transportation study, water resources—including water and sewer facility planning—economic development, and the community development block grant program.

I am not well-versed in the Federal budgetary process, nor am I familiar with party infighting, supply-side economics, or even political philosophies. My purpose in this hearing today is to provide this committee with experienced testimony relating to the impacts of the 1983 Federal budget on local planning and local infrastructure.

Although not well-versed on Federal budgetary matters or national politics, I sure as heck can provide this committee with some plain talk about the Federal budget and its effect on the local voter and taxpayer.

These facts can be related to this committee with ease as I must look these people in the eye as they walk in and out of my office on a daily basis. I must attend community meetings with these people several nights a week, and I can tell you that they are becoming irate.

Enough of community attitude. As presentation time has been limited, let me go directly to two areas which I will present as examples of local impact of present administration philosophy and the reflection of that philosophy both in the 1982 Federal budget and projected to prevail in the 1983 Federal budget.

First, one of the most pressing domestic problems is that of protecting and maintaining water—one of our most precious resources. The U.S. Congress, in 1972, made a commitment and set a national goal to clean the waters of the United States by 1985. This commitment was in the form of Public Law 92-500, Federal Water Pollution Control Act Amendments of 1972.

Brevard County has faithfully been participating in the process contained in section 201 of Public Law 92-500 since 1975. Suddenly, as we near the end of this complicated and arduous process, finally reaching for the golden ring, we find that our reward has been reduced significantly and, in fact, may not even be available. Needless to say, this has been caused by large Federal budget cutbacks—cutbacks that will ultimately mean extremely high connection fees and user charges.

This has come as a shock to the local governments and users. After all, they were enticed into the 201 process by the Federal Government's invitation to assist them in meeting the national goal expressed in Public Law 92-500. A major portion of this assistance was to come in the form of grants sharing the expenses of recommended improvements.

With Public Law 92-500 came new, stringent water quality standards and goals. Realizing that improvements planned at the time of enactment of Public Law 92-500 would not meet the law's water quality requirements, local governments delayed planned improvements.

In order to accommodate existing demands and the growth that was inevitable, existing plants were either improved on an interim basis or were stretched to their limits. These actions were taken in reliance that, at the end of the 201 process which had been initiated, the Federal Government would fulfill their promise and continue a full program of funding in order that the Public Law 92-500 goals could be accomplished jointly.

The rug has been pulled, local government has been left almost without hope.

Federal funds are slim and expensive interim measures that were originally planned to last only until a 201 facility was funded and constructed are having to be shored up and the quality of the waters of this Nation is suffering.

If the Federal budget is not reconsidered, the impact not only on the waters of the Nation, but also on local government, will be staggering. Growth, which is inevitable and which is vital to the economy of the local areas will have to be halted, or local customers will experience connection fees and user charges that will rival their mortgage payments.

Both of these alternatives are undesirable to the local users and to you as elected officials. I suppose I feel that the possibility of either of these alternatives has been caused by the Federal Government changing horses in the middle of the stream without considering the ramifications at the lower levels of government and the resulting impact on the public which they govern.

As a specific example of the impact of the Federal budget reductions on the local taxpayers, I offer the committee the following data concerning the Environmental Protection Agency's 201 facilities recommended in Brevard County. This data represents a comparison of the cost of those facilities if funded under the original promise versus the costs if they were funded under the present administration's budget philosophy:

From 1975 to 1981, the total is $125,917,000 with the Federal share at 75 percent or $94,437,750 and the local share at 25 percent or $31,479,250. From 1982 to 1983, the Federal share is 55 percent or $69,254,350 and the local share is 45 percent or $56,662,650.

As can readily be seen, the local taxpayer will experience a significant difference in the Federal share originally promised and that which may be experienced as a result of the proposed 1983 budget, that is a difference of over $25 million. This is truly an unexpected burden, one that cannot be shouldered by local government nor the local taxpayer/voter.

Second, the key to a strong country is a strong economy. A strong economy cannot happen unless industrial and commercial activities are provided not only with responsive services, but also provided with the opportunity to establish and expand.

In Brevard County, after the bottom dropped out of the space industry and the local unemployment reached around 15 percent, one of the most effective stimuli to our economic recovery was the activities and assistance of the U.S. Department of Commerce's Economic Development Administration.

The basic participation in Brevard County by EDA has provided the county with the incentive needed to pull itself up by its bootstraps. The basic intent of the EDA's program is solid. Approximately 3,000 jobs in Brevard County can be credited to projects in which EDA has participated.

The most recent example of EDA's participation is the Gateway Center project. This project, adjacent to the TI-CO airport and just outside the entrance to the Kennedy Space Center, has been touted as the key to the future growth of the north Brevard sector of Brevard County.

In 1981, EDA approved a $2.2 million grant to Brevard County to fund roads, water, and sewer lines, and drainage in the Gateway Center project.

At this point, you may be asking what these comments regarding EDA have to do with Federal budget impacts on the local planning and infrastructure. The point to be made is that since 1981 the Federal fiscal policy has changed radically. This change has had a direct impact on the key rebuilding project for the north Brevard economy.

After EDA funded the Gateway Center project and construction bids were taken, it became apparent that cost underruns would be experienced on the project.

In order to continue to do their share to provide facilities so that the local economy could experience recovery, the county commission purchased 390 additional acres for industrial development adjacent and contiguous to the Gateway Center project. It was anticipated that the EDA grant underrun moneys could be used to provide the roads, water, sewer, and drainage in the newly purchased land. However, the locals were in for yet another shock.

Although the local governments have provided over $2 million as a result of the original $1.5 million incentive provided by EDA, the request to use the underrun from the original grant was denied.

Again, as with the EPA experience, the original enticements and challenge of jointly improving the Brevard County economy were accepted only to have the Federal Government, at a critical time in the rebuilding process, pull back their hand, leaving the locals holding the bag.

This type of action by the Federal Government appears to be counterproductive to present administration's philosophies. How can private enterprise play a key role in providing jobs, stabilizing the economy, providing the foundation for economic recovery, and providing insulation from future economic downtrends if they cannot be provided the infrastructure on which they can establish or expand?

Brevard County believes that if private enterprise is to have a chance to turn our economy around they must be provided with a solid base on which to depart. In north Brevard County's case this chance is the Gateway Center project, a project that is projected to provide approximately 5,800 new jobs.

However, because of activities or objectives projected to be expressed in the 1983 Federal budget the full impact of this project may not be fulfilled.

In Brevard County's case, the programs that experienced the greatest disruption in the 1982 Federal budget and are those projected to continue to be disrupted in the 1983 budget, are the ones that can and must play a significant role in the successful creation of an economy that provides our county and our Nation not only with stabilization and recovery but also an economy that is insulated from future economic downtrends.

To summarize, in the two cases I have presented this committee, the Federal Government has set its goals—enticed the locals to participate, pulled out, and left the locals holding the bag. Local governments, at least in Brevard County's case, have either more than fulfilled or are willing to fulfill their originally defined roles. Currently, local government is awaiting the outcome to see if the Federal Government is going to continue reneging and not pulling their promised share of the load or whether they are going to come to their senses and rejoin the partnership.

Gentlemen, thank you for the opportunity to appear before your committee. Good luck on your most difficult task.

Mr. NELSON. Thank you, Mr. Hannah.

At this point I am going to interrupt to ask our mayor to please come to the podium, to accommodate his schedule.

Mr. Mayor, we are most appreciative for the opportunity to use your facilities. We would be delighted to hear your comments.

STATEMENT OF HON. BILL FREDERICK, MAYOR, CITY OF ORLANDO, FLA.

Mr. FREDERICK. I know that you have had a long morning. And I have had a few of those in the past myself.

I did prepare formal comments. I think I can speak just from some experience.

Let me say that we share some of the comments that I know have come to you, that everyone including local government is concerned with inflation and interest rates. They impact the cities just like they do families. And when we build new projects that require bonds to be issued, the high interest rates with which we have to compete are as destructive to your needs as they are to everyone else.

So I would add my amen to the efforts that each of you is giving to reducing interest rates and also balancing the budget. We support that.

The old adage about being conservative in the giving and liberal in the taking, we all are guilty of that. So it is a tendency to say balance the budget, but don't cut our end of it.

I would like to say that we are willing, I think, in local government to do our part to take our share of sacrifice, providing there is consistency in the sacrifice that is given.

I would like to share with you some thoughts.

Local government has in many ways more than State government to some extent, more than Federal Government, if I may, I think, been forced to eat rations here that have proportions far outstripping other areas of government.

For example, in our own parks and recreation department here in the city since fiscal 1978–79, we have had a 28-percent reduction in the staff while population has been growing at more than 3 percent here. So in an area that is one of the most dynamic growth areas in the country, Orlando has been cutting back the personnel associated with some of our most important problems. This is true as well for police, fire, and other important areas.

So we have done our part. Perhaps we can do more. But I would point out to you that the proportionate reductions in absolute numbers here in local government, if they are looked at carefully, I think perhaps we have been doing our share long before it became a national crisis.

Local governments throughout the country, as I gather from comments, are in dire circumstances, failures in infrastructure, failures in basic opportunities to meet our financial needs.

We don't have the ability to print money, we don't have the ability to levy taxes, except for those delegated to us by State governments. Those are special concerns that you know a great deal about already.

We are willing to do our fair share. But we don't want to do our fair share when others are not. So that will be in your wisdom that these protections are included.

I think the entitlement programs, the indexing of these programs which very clearly, in my opinion, and I am sure in many of yours, are contributing to the problem—we cannot continue to protect those inflated and sometimes overly generous perhaps allocations of Federal revenues at the expense of local government.

So when I say we are willing to pull our belt tight, I think there is going to come a political season when you are going to look hard at social security and others, where the indexing and the continued run on entitlement programs just has to stop.

We do our part. If we can, I think the benefits back to local government will exceed the sacrifice. As we can see, if inflation and some of the deteriorating influences on government subside with the good economics you will bring to Federal Government, then there will be a dividend as well. There will be some benefits for us.

Let me speak specifically to just a few projects.

One is the waste water programs. As chairman of the State's Environmental Regulation Commission over a period of 8 years, I have administered almost $2 billion of those grants through Florida. We are very grateful for them. I have testified often this year on some of those subjects. I won't get into the needs. The survey needs far exceed anything that was ever envisioned to be given. I understand a little of the history, that these were to be inducements, and very quickly seen as the entire sponsorship.

Local government is and should be willing to go ahead and clean up its own environmental needs. And I think the direction that you have given, I know in the county we have gone ahead and raised impact fees to create the capital needed to build additional waste water treatment plants. We have also raised sewer rates to pay for the additional higher levels of treatment which have been required. And I think on balance the standards that have been put forward are pretty reasonable, that if we are going to have clean air and water anything much less than what we have today simply won't do it.

So the price tag has come home, regrettably when it is my turn to administer the burden. But I am not fussing at you about the standard.

I would say to maintain some flow—for example, even on a more competitive basis, it used to be one-quarter, three-quarters. You put provisions where there can be competitive application of those funds. I would encourage it. I bet you the city would jump at the opportunity to take 10 cent dollars if they could get them right now. And you would stimulate some construction and do some good fringe benefits for the national economy if you would put more competition in the opportunity to obtain those funds.

Now, that is speaking strictly from my viewpoint of the city. The county and others can speak for themselves. But I think you have some room to work there—take existing dollars and make them maybe more effective.

I would encourage you to keep the $2.4 billion that you put in, $90 some million for the State, who knows what share it will be down here. But we have an incredible, 200 million, 300 million dollars' worth of projects that under consent decrees and Federal mandates we must meet. We are doing it, with no small amount of heat from seniors and people who are very adversely affected.

But again, it is the equal sharing. We are willing to do it here, if you will be consistent. We will do it anyhow because we have to. But to the extent you can be consistent and use innovative techniques to help us, I think you can do and improve that system.

I was asked specifically by your letter to address two areas. One was airport planning, development, and also law enforcement. I asked my chief of police to advise me in terms of the alcohol, tobacco and firearms and the drug enforcement agencies—the cutbacks are really too much in their infancy to fully assess from our standpoint. The FBI—one small example—turnaround time on getting fingerprints back has gone from 1 to 5 weeks. The new Director wants to do that in 2 weeks, 15 days. Small, but an illustrative item.

ADAP—we have had $11 million in our new terminal. I hope if you flew in commercially you had a chance to see what a lovely product that is for us. We will be expanding, because that building is built for twice—12 million, and then with a flip over to 24 million. So we have in place the expectations of considerably more people coming.

We are going to need some of those funds. But in turn again, we will meet the needs—local government will meet the needs if you take the head tax and change it round, give us the tools. But give us the signals in advance so we can deal with it. Give us some leadtime and direction on that. We will do what has to be done. There is no free ride. It is not any cheaper to build it with Federal than local dollars. It is just a case of who gets it and how it is collected.

In some instances, it is cheaper with local money, because we feel like it is ours instead of yours. But we do need lead and help in knowing where we are going. If the rules keep changing it really puts chaos in the planning process.

One thing that is really important to me. On the UMPTA funds, the mass transit assistance that is presently coming, we are not getting 50 percent operating subsidies for the deficit created by the differential between what it costs and what the farebox produces. To illustrate with our Orange, Seminole, Osceola transit authority, that is the transit authority for our mass transit, which is buses, we are doing some other things. Congressman Nelson knows those details. But buses will remain the means of moving people outside of automobiles in the foreseeable future.

We have a lot of roads in place. We can be more efficient in the use of them.

We have a very small operation. We are trying to make it better. We have about a $4½ million budget. Fares provide less than 50 percent. They should be about 50 percent. But we are a little low on that. We have $2½ million that is divided between an UMPTA grant for operational needs and made up by local sharing.

Now, the forecast is that in a couple of years about $1.6 million is going to be taken away. And there are all of those operating needs. Orange County last year which put all of the match in with the exception of a 100,000 from Seminole, put up about $1.2 million. You can see if you take this operating subsidy away, we will have to more than double what has been the local match just to fill the hole. And when the hole is filled we are still below grade, because the system is inadequate.

I think again I am saying to be consistent that we will do what we have to do, but the thing that concerns me is that if they take this operating subsidy away your big cities are not going to make it. You are not going to provide transportation, mass transportation in Chicago and New York and Detroit if you take it away.

Therefore, the pressures are going to be on you. I don't want to see it that we will provide it for New York, Chicago, and Detroit, but not for Orlando, and Raleigh-Durham, or any of the other medium-sized cities that I think share an equal equity in this need.

So I strongly urge you that when the pressures come to look at that if it has to go to meet the national need, OK, we will do our part some way. But I suspect that that is going to be an area of special need.

I would say it is uniquely needed, because of the increasing impacts and the environmental benefits and other things that spin off from that. So when that comes around, just be certain that we don't throw away everybody.

Let's be fair all the way across the board. If you have to cut it out, let's cut it out for New York and Chicago and everybody. But if you keep it for them, let us have our little piece proportionate to what their share is.

I appreciate very much the opportunity to bring to you these concerns. If there are any questions, I will be happy to answer them. If not, I thank you very much.

Mr. NELSON. We wanted to accommodate your luncheon schedule. Any comments or quick questions?

Mr. GEPHARDT. I appreciate your being here and your testimony. It has been very helpful to us.

Mr. NELSON. And it weaves a common thread that has been stated by all of your colleagues who spoke earlir.

Mr. JOHNSTON. I think it is intriguing to me how the one thing that comes out of the business community, educational community, and not the infrastructure, the State and local government community, its consistency. It might be the bugaboo of small minds, but it is certainly great from a planning standpoint. And the plea we are getting is just stay on course for a little while. As you know, the dollars are not in your programs. They are in payments to individuals.

Mr. FREDERICK. It is a tough job you have. But that is the best advice we can give. Thank you so much.

Mr. NELSON. Thank you, Mayor Frederick.

Continuing on with our panel on local government, Ron Rogers is the administrative assistant of the town of Eatonville. The town of Eatonville is an example of a small town that does one of the best jobs I have seen in my 10 years in elected public office of working the system, and they are very, very effective at that. We are delighted to have you here.

STATEMENT OF RONALD O. ROGERS, ADMINISTRATIVE ASSISTANT TO THE MAYOR OF EATONVILLE, FLA.

Mr. Rogers. To Hon. Congressman Bill Nelson, Congressman Richard Gephardt, Congressman Eugene Johnston and other distinguished officials and citizens. I am Ronald O. Rogers, administrative assistant to the mayor of Eatonville, Fla., the oldest incorporated black municipality in the United States.

I appear before you today to give you a brief assessment of the problems black communities such as Eatonville face with regard to the impact of the Federal budget. Many black towns and other minority communities have been devastated by the Federal budget. These communities depend heavily upon Federal programs in order to provide a decent life for its citizens. Small towns with extremely limited tax bases cannot provide the infrastructure so badly needed to build a framework for new industry and economic growth and prosperity without the aid of the Federal Government.

Cuts and/or eliminations of such agencies as the Community Services Administration, Economic Development Administration, Farmers Home Administration, and the Department of Housing and Urban Development have forced many small communities to close its municipal doors thus leaving thousands of unemployed heading toward larger cities with the hope that prosperity will be found. This only causes greater problems for America's large cities where unemployment is increasing by rapid proportions.

The impact of the Federal budget has severely hit the large cities also and a direct link between the underdevelopment and/or nondevelopment of small towns adds a new dimension to the economic plight of the poor. Even in some areas where the economy still seems to be holding its own such as central Florida, small towns such as Eatonville, which sits in the very heart of central Florida, has not been able to capture its share of the economic prosperity of central Florida. Eatonville like many other minority communities has been snubbed by the private sector for development basically for the lack of political control and if it were not for the assistance of the Federal Government, Eatonville would not survive.

During the past 10 years Eatonville has worked very hard to improve itself through the use of Federal funds. The philosophy espoused by Eatonville is that we should only apply for Federal funds to fund the capital development projects that a $50,000-a-year tax base cannot. Through Federal funding Eatonville has been able to provide paved streets, sidewalks, a new water plant and distribution system along with a complete drainage system which catapults Eatonville to the status of being the only municipality in Orange County that is completely paved, watered, and sewered throughout. Improvements have been made in upgrading the municipal services such as police and fire protection along with upgrading the housing stock and providing a public park system. Although Eatonville has developed the kind of infrastructure needed to attract industry, the town has not been able to receive a positive response from private industry which is desperately needed to expand its tax base and provide jobs for its citizens.

The town has plans for a 100-acre industrial park which if built at maximum build out would generate over $100,000 in taxes to the town and provide more than $20 million in wages through employment, thus creating a positive economic impact in central Florida five times that amount.

Many of the problems experienced by Eatonville and other small towns are directly related to the Federal budget and the administration's belief that heavy budget cuts and a return of power to the States is the way to go. But I must say to the contrary that if programs are shifted back into the hands of the State, blacks and other minorities will not have a fair and equitable chance at receiving assistance needed in order to survive—not live, just survive. Evidence of this has already taken place in many States, including the State of Florida where a Technical Coordinating Committee was formed by the State to draft the proposed small cities community development block grant program regulations and not one black or minority of any kind was placed on this committee.

But today's issues transcend the normal basics of racism and become much more complex because the issues affect whites as well as blacks who occupy the lower rungs of the economic ladder. Still even there, blacks get the shorter end of the stick, owing to the continuing power of racism.

The administration seems to feel that cuts in social programs and Government regulations will solve the problems of America's economic woes today. Thus specifically targeting the poor and the needy along with regulations affecting working conditions, consumer safety, health, and environmental protection. Its impetus is to rebuild the economy through unrestricted growth in the private sector.

The administration is proposing cuts across the board, but the largest share of the burden falls on the poor. Cuts in the food stamp program will cause millions of people to go hungry. Reduction in meals and milk for poor schoolchildren will have a drastic effect on children probably whose only opportunity to eat a decent meal during the day will be at school. The elimination or the reduction of programs such as CETA, aid to dependent children [ADC], social security payments, public health programs and educational assistance funds will have a far-reaching effect on the economy.

In the area of reducing Government regulations, the administration wants to minimize regulations on business, but the safety regulations were instituted to protect workers from hazardous conditions which cause thousands of accidents. The relaxing of affirmative action and equal employment standards would be a big blow to blacks and other minorities who would not have employment and promotional opportunities if it were not for these regulations. The old theory that deregulation will help the economy through the trickle-down process may or may not work.

It is thought by many that Government spending, especially in the previously mentioned areas, and Government regulation are the backbones of inflation, but no one deals with the high cost of imported oil which has contributed to inflation in the United States and other industrialized nations.

Our Nation is faced with a collapsing private sector that must be rebuilt, but at the same time shrinkage of the public economy cannot get the job done unless there is some kind of linkage for the American public to transfer from one side of the economic spectrum to the other, for without this linkage a vast number of black and poor people will perish.

Although we would like to feel that all Americans are judged and treated as equals, we must face reality and come to grips with the fact that we have not progressed that far. Many Americans, both black and white, believe that the problem of welfare is a black problem, but a recent Ebony magazine article displayed that out of all the welfare-related programs blacks lead in only one category and that is public housing, basically because of being redlined out of the housing market and the lack of adequate incomes to secure a place of our own.

In closing I would like to borrow a portion of a message recently delivered at the National Conference of Black Mayors by Vernon Jordan, former executive director of the National Urban League who stated when a black man is born in America and matures to the point of taking care of his wife and family, all he is basically looking for is a good job paying a decent wage so that he can provide the American house with a picket fence, a car for transportation, a vacation once in a lifetime, education for his children, food for his family, and a debt-free estate at the time of his death.

[The prepared statement of Mr. Rogers follows:]

PREPARED STATEMENT OF RONALD O. ROGERS

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Mr. NELSON. Thank you, Mr. Rogers.

To wind up the panel on local government, we welcome Sam Ackley, the city manager of Kissimmee.

STATEMENT OF O. SAM ACKLEY, CITY MANAGER, KISSIMMEE, FLA.

Mr. ACKLEY. Thank you.

I am going to take a little different tact. I agree with everything, especially what Jim has said, about consistency and about planning. Let me give you a little background.

Ten years ago Kissimmee had about 8,000 people. Today it is approaching 19,000 permanent population. On any given day we had approximately 25,000 people staying in our motel rooms. We also own an electric utility which services about 40,000 people.

I am here today to try to explain the potential effects of the New Federalism and budgeting on local government. I do not plan to quote specific figures or statistics in that these vary depending on the sources quoted.

However, the relationship between the various statistics and figures can be established and in most cases are fairly consistent.

Before getting into this relationship, I want to give you an analogy at the State level about public policy and dealing with the implications.

Approximately 3 years ago the State of Florida increased the State homestead exemption, raised assessments to 100 percent of the market value as required by the State constitution, and passed a new bill called the TRIM bill which would fully disclose tax increases at the local level. All of these measures were aimed at tax relief and equalization. These are noble objectives in there own right. However, the implications of these moves are still being felt.

In summary, the implications were to shift the tax burden to the middle class, increasing property taxes, in some cases over 300 percent, forcing in some communities a tax revolt. The moral of this story is that although the motives were good and desirable, the results were damaging and in some cases counterproductive.

The New Federalism and the Federal budget can suffer the same fate if Congress does not take a strong hand in partnership with the executive branch of Government. The bottom line is money supply. And that is what I wish to speak about. The impact of the money supply cannot be overstated, especially on the infrastructure. Each of us is willing to contribute a certain percentage of our gross income toward the support of government services. If, taken as a whole, this can be reflected as a percentage of gross national product. However, I also believe there is a point beyond which government cannot expect the taxpayers to contribute. If the Federal Government is presently taxing the equivalent of, and I think I heard 24 percent of the gross national product and State and local government the equivalent of 15 or more percent of the gross national product, and if this in fact is 39 percent of the gross national product going toward government taxes, or government services, we cannot change that figure, we have to reduce it.

The New Federalism promises to shift these services to the local level. The question I submit to you today is do you plan to shift the ability to raise taxes and your percentage of gross national product at the local level as well, or on the other hand do you plan to increase the percentge of gross national product which goes to support government services at all levels? The answer lies in the action you take at the Federal level.

If you choose to balance the budget by increasing taxation while returning the responsibility for certain Federal programs back to the local level, you are increasing the percentage of gross national product which must go toward supporting Federal, State, and local government services. This means greater taxation and greater competition for limited money supply.

This competition is becoming unbearable for local government and hurts all of our citizens. As with any free market system, limited recourse with unlimited demand pushes prices, taxes, and interest higher and higher. We are witnessing this on the money market with unusually high tax-free interest rates. Local government cannot compete in this market. Thus the infrastructure upon which this country is built is threatened.

Not only are the governmental infrastructures such as roads, streets, bridges, camps, and public buildings threatened, but the proprietary functions which government manages in many cases are also threatened. Such things as water, sewer, electric utilities, airports, and recreation, open space, all of these items depend on the abilty to borrow money directly or indirectly or the ability of local taxpayers to pay taxes.

The original theory of the New Federalism, which was to reduce taxes by returning responsiblity for certain programs back to the local level was a sound one insofar as money supply is concerned. However, the Congress must be careful to insure that the percentage of GNP going toward government services at all levels remains constant or decreases. Do not give local government the responsibility for Federal programs without giving local taxpayers back some of their gross income in order to pay for those local programs with local taxes. If you fail to do this, New Federalism is doomed, and the Nation's infrastructure will greatly suffer. Remember, the amount of money you borrow or pay as you go spent on the infrastructure increases as interest rates decrease or as taxes as a percentage of gross income decreases.

You must balance the budget without increasing the total Federal, State, and local tax effort as a percent of gross national product. Thank you.

[The prepared statement of Mr. Ackley follows:]

PREPARED STATEMENT OF O. SAM ACKLEY

Gentlemen:

I'm here today to try to explain the potential effects of the new federalism and budgeting on local government. I do not plan to quote specific figures or statistics in that these vary depending on the sources quoted. However, the relationship between the various statistics and figures can be established and, in most cases, are fairly consistent. Before getting into this relationship, I wish to give you an analogy at the State level.

My analogy deals with the implications of public policies. Approximately three years ago, the State of Florida increased the State Homestead Exemption, raised assessments to one hundred percent of market value as required by the State Constitution and passed a new bill called the "Trim" Bill which would fully disclose tax increases at the local level. All of these measures were aimed at tax relief and equalization. These are noble objectives in their own right. However, the implications of these moves are still being felt. In summary, the implications were to shift the tax burden to the middle class, increasing property taxes in some cases over three hundred percent, forcing, in some communities, a tax revolt. The moral of this story is that although the motives were good and desirable, the results were damaging and counter productive.

The new federalism can suffer the same fate if Congress does not take a strong hand in partnership with the Executive Branch of government. The bottom line is money supply. The impact of the money supply cannot be overstated. Each of us is willing to contribute a certain percentage of our gross income toward the support of government services. If taken as a whole, this can be reflected as a percentage of gross national product. However, I also believe that there is a point beyond which government cannot expect the taxpayer to contribute. If the Federal government is presently taxing the

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equivalent of twenty-four percent of the gross national product and State local government, the equivalent of fifteen percent or more of the gross national product, this is a total of thirty-nine percent of gross national product going towards government taxation or government services.

The new federalism promises to shift these services to the local level. The question I submit to you today is, do you plan to shift your (Federal) percentage of gross national product to the local level as well? Or, on the other hand, do you plan to increase the percentage of gross national product which goes to support government services at all levels? The answer lies in the action you take at the Federal level. If you choose to balance the budget by increasing taxation while returning the responsibility for certain Federal programs back to the local level, you are increasing the percentage of gross national product which must go towards supporting Federal, State and local government services. This means greater taxation and greater competition for the limited money supply.

This competition is becoming unbearable for local government and hurts all of our citizens. As with any free market system, limited resources with unlimited demand pushes prices, taxes and interest higher and higher. We are witnessing this on the money market with unusually high tax-free interest rates. Local government cannot compete in this market, thus the infrastructure upon which this country is built is seriously threatened. Not only are the governmental infrastructures such as roads, streets, bridges, canals and public buildings threatened but the proprietary functions which government manages are also being threatened by the high interest rates - water, sewer, electric utilities, airports and recreation open spaces. All of these items depend on the ability to borrow money directly or indirectly, the ability of local taxpayers to pay taxes and/or rates, as the case may be.

The original theory of the new federalism which was to reduce taxes while returning responsibilities for certain programs back to the local level was a sound one as far as money supply is concerned. However, you as Congress must be careful to ensure that the percentage of gross national product going towards government services at all levels, remains consistent or decreases. Do not give local government the responsibility for federal programs without giving local taxpayers back some of their gross income in order to pay for those local programs with local taxes. If you fail to do this, the new federalism is doomed and the Nation's infrastructure will greatly suffer. Remember, the amount of money, either borrowed or pay-as-you-go, spent on infrastructure increases as interest rates decrease or as taxes, as a percentage of gross income, decrease.

You must balance the budget without increasing the total (Federal, State, local) tax effort as a percentage of gross national product.

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Mr. **Nelson**. Thank you, Mr. Ackley. Questions?

Mr. **Gephardt**. I would like to ask the last speaker a question based on what he said. Do you have any specific feelings about how New Federalism should be structured? Does it matter to you which programs go back and forth along the lines of the overall goal that you set out?

Mr. **Ackley**. If the overall goal I set out is followed, it would not matter because you would provide the resources at the local level to take care of the responsibilities you indicate, or we assume. We believe we can do a more efficient job at the local level. I think there are a lot more reasons than Mayor Frederick mentioned, as he pointed them out, but I won't go into them, as he did not. I feel the main thing is policy directions and maintaining a consistent relationship between taxing efforts at the Federal and local level.

Mr. **Gephardt**. Thank you very much. Excellent testimony of everybody on this panel.

Mr. **Nelson**. My compliments to Roselee Roberts of my staff who has set up these panels—and we have two more to go, one concerning health and social services and another concerning the AFL-CIO, and then we will take individual testimony thereafter. We appreciate your setting these up. Mr. Johnston.

Mr. **Johnston**. I have no questions.

Mr. **Nelson**. Thank you all very much. Very insightful testimony.

We call on Peter Wahl, Health and Social Services Administration, Brevard County.

STATEMENT OF PETER F. WAHL, ACTING COORDINATOR, HEALTH AND SOCIAL SERVICES ADMINISTRATION, BREVARD COUNTY, FLA.

Mr. **Wahl**. Congressman Nelson, Congressman Gephardt, Congressman Johnston, I am going to be brief.

Health and social services in Brevard County is a little different than perhaps other places throughout the United States. Florida, in the provision of human services, is different from the other States.

As I go through this, I think you will understand that while we are supportive at the local level of the efforts of Congress to reduce the deficit and balance the budget, we do have some of the concerns that others voiced here this morning.

The smoke is clearing from the first round of the Federal budget cuts and most people have surprisingly found that those people most in need, while they have not had their needs necessarily fulfilled, have had their needs addressed. With the years' experiences, one of our concerns is that there may be a temptation for Congress to do a second round broad-brush effort at reducing Federal spending. We would suggest that the result of that kind of action would be devastating.

The easy reductions have been made. Those programmatic and funding anomalies which have existed have been either reduced or removed. It is now time for the Congress to exercise, in addition to Mayor Frederick's consistency, caution and care. From this point forward, Federal funding reductions are going to have very serious individualized impacts.

Some issues for local government and human services have arisen as a result of the first round of cuts. While we are in support of the formal assignment of responsibility to the various levels of government, we would urge you to insure the appropriate funding mechanisms be shifted to cover the areas of shifted responsibility.

Congress needs to insure that the mandates are accompanied by legislation generating revenue at the assigned level of responsibility. We would caution you and ask you not to mandate services if you are not going to allow for the capability for paying those mandated costs.

A part of this mechanism needs to insure the passthrough of Federal block grant funds to local government. While State agencies may disagree, the resolution of people's problems takes place at the local level. In the past, there has been a tendency, at least in Florida, for Federal funds, but not the Federal mandates, to stop in Tallahassee. They are used, almost exclusively, for State activities or priorities.

With the exception of the purchase of specific contracted services, virtually no title XX money has flowed to units of local government in Florida. Consequently, and unfortunately, when Federal reductions has occurred, the bulk of the impact hit at the State agency level. The State Department of Health and Rehabilitative Service has laid off a substantial number of people whose positions and whose jobs were paid out of title XX funds. New cuts in the title XX program are going to have significant impact on contracted services at the local level.

Many nonprofit organizations which were created to address cost effectively, the provision of services to people in need, particularly the handicapped, are dependent upon title XX contracted service moneys. Many handicapped citizens are assisted by these contract services in maintaining at least a degree of self-sufficiency and independence from public subsidy. Many elderly, via contract community service, are kept out of publicly subsidized nursing home beds through the provision of these services. They need to be maintained.

I think you will find local government has been supportive in your effort toward the reduction of the Federal deficit. We would suggest that that support will continue if Congress will exercise caution and care and look beyond the quick fix. Every cut from this point forward needs to be based against a set of national values out of which come national priorities.

There are two examples, one very small, and one that kind of echoes Mayor Frederick, that I would like to cite. The first example has to do with the elimination of the $300 Veterans' Administration burial benefits. At the time that that was eliminated, the $250 social security death benefit was also eliminated. As a result of those two reductions, local government has been placed in a position of assuming the cost of burial or disposal of the remains of the single indigent deceased veteran. Local government in attempting to contain its expenses has initially responded to the dilemma with an intent to inter into the local "Potter's Field," only to find that such action, in the case of the veteran, is prohibited by Federal law. Realizing that problem, we have the mandate of what we can't do, but we don't have the wherewithal to pay for the cost of the things we are required to do. The outcome? Higher total costs for local government borne by local tax revenues, higher costs to the taxpayer than if the Federal funding had been contained.

This small issue points to a continuing plea from municipal, county and State government organizations. If you are going to stop the funding, stop the mandate. We suggest that you look beyond the Federal dollar signs for the real impact.

In the second case, Mayor Frederick addressed the issue of UMTA. In Brevard County we have an even smaller mass transportation system. We get about $450,000 a year from UMTA moneys. Out of that subsidy, we haul approximately 350,000 persons who are transportation-disadvantaged, physically, mentally, or emotionally handicapped, elderly or low income.

If the UMTA subsidy program is eliminated, 100 people who now attend the Brevard Achievement Center will go back on the rolls of SSI at $264.70 a month. Instead of producing in a sheltered workshop and paying taxes, they are going to re-become tax consumers. One hundred fifty senior citizens are going to have to stop going to the nutritional program on a daily basis. With that they are going to risk a heightened probability of early nursing home placement at public subsidies that is going to approach $500 a month on an average.

If even 50 percent of the actions that I just cited occur, the required subsidy is going to double that which it would be if you maintain the transportation service and these affected people can continue to live independently.

Mayor Frederick has suggested that systems impact is going to be even more demonstrable in larger cities. I would suggest that is accurate, but it is no more significant than in small urban areas. The reductions of the first round of budget cuts have fallen heavily on the poor. We have reduced or stopped support in the areas of food stamps, AFDC and other areas. We told them go to work. And a lot of them have, at minimum wage. If you stop transportation subsidies, you are in a sense saying to these people, hey, we are telling you one thing, but we are demonstrating to you we are not going to allow you your mandated search for independence or nonsubsidized living—we don't want you. We are creating a problem, creating a real "Catch-22."

We are the first to agree that some of those things need some cleanup. They do. We were in the position of loaning $700,000 of UMTA appropriated money to Volucia County, because we are never going to spend it in our area. That is crazy. These things need cleanup. They need to be looked at. They need to be addressed. But please, exercise caution, exercise care. We are glad you came and talked to us.

[The prepared statement of Mr. Wahl follows:]

Prepared Statement of Peter F. Whal

The smoke is clearing from the first round of federal budget cuts and most people have, surprisingly, found that those persons most in need have had those needs addressed, if not fulfilled. With a year's experience, there may be the temptation for a second round, broad brush effort at reducing federal spending. We would suggest that the result of that kind of action would be devastating. The easy reductions have been made. Those programmatic and funding anomalies which existed have been removed. It is now time for the Congress to exercise extreme caution as it attempts to address the deficit. From this point forward, federal funding reductions are going to have serious individual impact.

Some issues have risen as a result of the first round of cuts. We are in support of the formal assignment of responsibilities to the various levels of government, as long as the appropriate funding mechanisms are allowed to be shifted with the areas of responsibility. Congress needs to ensure that its mandates are accompanied by the enabling legislation to generate revenue at the assigned level of responsibility. You cannot mandate services if there is no capability for paying their costs.

As a part of this, a mechanism needs to be included which ensures the pass-through of the federal block grant funds to local government. While state agencies may disagree, the resolution of people's problems takes place at the local level. In the past, there has been a tendency, in Florida, for federal funds to stop in Tallahassee and be used, almost exclusively, for state

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agency activities. Title XX is an excellent example of this. Except for the purchase of specific contracted services, virtually no Title XX monies flowed to units of local government in Florida. Consequently, when federal reductions occurred, the bulk of the impact hit at the state agency level. The State Department of Health and Rehabilitative Services has laid off a substantial number of people whose positions were paid from Title XX funds. New cuts in this program would have to come from contracted services, the reduction of which will have serious impact at the local level. Many nonprofit organizations depend upon those contract monies to provide direct services to the elderly and the mentally and physically handicapped. Many handicapped citizens are assisted by these contract services in maintaining at least a degree of independence from public subsidy. Many elderly, via contracted community services, are kept out of publicly subsidized nursing home beds.

I think you will find that local government has been supportive of the effort toward reducing the federal deficit. We suggest that that support will continue if the Congress will exercise caution and care and look beyond the quick fix. Every cut made from this point forward is going to have substantive impact on individuals in need. There are two examples I'd like to cite.

The first round of budget cuts contained the elimination of the $300 V. A. burial benefit for veterans. At the same time, the $250 Social Security death benefit was cut.

Since the onset of those two reductions, local government has been forced to assume the added cost of burial or disposal

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of the indigent and the single indigent veteran. Local government, in attempting to contain expenses, has initially responded with interment in the local "potter's field" only to find that such action, in the case of the veteran, is prohibited by federal law. Therein lies a problem--federal funding removed and a federal mandate denying the possibility of cost-effective local resolution. The outcome--higher total cost to local government, borne by local tax revenues, higher cost to the taxpayer than if the federal funding had continued. This small issue points to the continuing plea from municipal, county and state government organizations, that is to "please stop the mandates at the same time you stop the flow of funds." We suggest Congress look beyond the dollar signs for the real impact.

In the second case, it is proposed that operating assistance for mass transit be stopped. That move would eliminate billions of dollars in federal cost. We would suggest that that may be short-sighted. Running this scenario out in Brevard County demonstrates that that estimated saving may be false. If our bus system (the Consolidated Agencies Transportation System [CATS]) gets no UMTA funding, 100 people at the Brevard Achievement Center go back on the roles of SSI at $264.70 a month; instead of producing in a sheltered workshop and paying taxes, they return to being tax-consumers. One hundred fifty senior citizens would stop going to the congregate nutrition program and risk the probability of earlier nursing home placement at a public subsidy level which approaches $500 per month per person. If 50 percent

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of those two actions occurred, the cost to the federal government would nearly double the federal subsidy currently used in the transit program.

Systems impact of this proposal is even more dramatic, but no more significant, in large urban areas. The reductions in the first round cuts have been felt heavily by the poor. We've reduced or eliminated our support in food stamps, AFDC and other areas. We've told them to "go to work." Many of them have--at minimum wage. Now we're proposing crippling or eliminating mass transit--or making the user cost so high as to be unusable. We're stopping the only method the poor have of getting to work outside their local neighborhoods. So--we won't subsidize their lack of productivity and we won't assist them in their efforts toward self-sufficiency. A real Catch-22.

UMTA funding processes can stand some cleanup. Congress could gain much by only appropriating the money a local area can realistically use. The proposal of the National Association of Counties for capping federal operating assistance and basing its support on expenses rather than deficits would, at least, discourage the creation of huge deficits. Past practice has penalzied cost-effective, sound management.

In summary, we ask that Congress do exercise caution and care in the preparation of the coming budget. In working together toward a common goal, the handicapped, the elderly and the poor will not be abandoned in our efforts to correct the economic problems from which this Nation suffers.

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Mr. NELSON. Mr. Gephardt.

Mr. GEPHARDT. I have no questions. I just appreciate your testimony. It has been helpful and gives us a sense of urgency to go back and try to get some of these things done. Thank you very much.

Mr. NELSON. Mr. Johnston.

Mr. JOHNSTON. Thank you, Mr. Wahl.

Mr. NELSON. The next panel we have is from the AFL-CIO. Mr. Durante, are you going to make the presentation?

STATEMENT OF JAMES DURANT, AFL-CIO

Mr. DURANT. Mr. Chairman, New Federalism would reduce $2 million in medicaid, $37 million in New York State alone. It would reduce $1.5 million in employment training assistance grants, $86 million in Illinois alone.

It would reduce more than $1 billion in aid to families with dependent children, $189 million in California alone. It would reduce more than $1 billion in subsidized housing grants, $5 million in Massachusetts alone. It would reduce $865 million in the special supplemental food program for women, infants and children, $2.2 million in Washington, D.C., alone.

It would reduce $271 million in child nutrition funds, $22 million in Texas alone. It would reduce $217 million in energy conservation grants, $12.6 million in Pennsylvania alone.

Also, it has been proposed to reduce $40 billion in social security during the next 3 years, and this administration maintains it can do it without cutting down social security. I don't know how they can do it.

Now, the cost-of-living adjustments will be interfered with. The trickle-down theory doesn't work. The flow-up theory does. You give money to poor people, they are going to spend it immediately to live. You give money to wealthy people, they put it away in savings. Big business knows that, because you just watch the supermarkets. When the social security checks come out, there are no bargains, because they know the people have to spend in order to avoid starvation.

Of course, someone like Reagan, with over $300,000 in income, doesn't worry too much about the social security checks at the time they come in.

Reagan has proposed tuition tax cuts. This is another way of helping the rich and robbing the poor, because 10 percent of our students are in parochial schools as opposed to 90 percent in public schools, and you want to cut down on public schools and give the tuition tax credits.

Back in the early 1970's in Florida there was an unholy coalition for parochial aid, with the Catholics and the segregationists. Only one-half of 1 percent of blacks are Catholic, and this means you have elitism. Look at Northern Ireland, where you have two school systems. You have religious warfare. In Glasgow, it is against the law for a Catholic to be on the Protestant side, and vice versa, at the soccer games. Look at Quebec. No new English-speaking schools in the Province of Quebec.

Now, we support H.R. 6257, the Equity Tax Act of 1982, to restore fairness by repealing tax loopholes and to create jobs by restoring funds for public works, housing, transportation, job training, unemployment compensation.

Desperate people take desperate measures. When you have people who are unemployed, they are not going to sit by and watch their families starve. During the Great Depression here, the Communist Party had a peak of membership.

So I hope that you will cosponsor H.R. 6257. Thank you.

Mr. NELSON. Thank you, Mr. Durant.

STATEMENT OF ROBERT BURKHART, EXECUTIVE DIRECTOR, CENTRAL FLORIDA FEDERATION OF LABOR

Mr. BURKHART. I am Robert Burkhart, executive director of the Central Florida Federation of Labor.

I have spent most of my life working in an automobile factory in Toledo, Ohio, and then became a staff representative for the United Auto Workers Union.

I am using as a briefcase the December issue of Atlantic magazine, which contains an article on The Education of Dave Stockman. I hope you gentlemen have read that article.

I am convinced that there are two Americas, and it is possible to travel all the way across this country, and if you go to country clubs and the best hotels, and if you consort with the chambers of commerce and the Kiwanis Clubs and the Rotary Clubs and so on, you will meet one section of that society.

However, there is another section of the society, and that is the section that does the hard work in this society. It is those people on whose behalf I attempt to articulate what I am going to be saying here today.

You will see these people digging ditches along the roadside. You see them working in the automobile factories. You see them picking oranges out in the groves. You see them doing the stoop labor in the fields, and sad to say, the American labor movement represents, officially at least, only about one-fifth of those people. The rest of them are disorganized and rather inarticulate, and they only move when great pressures come upon them, great social pressures come upon them.

Then, as Carl Sandburg says in "The People, Yes," they move reluctantly, sort of like a sleeping giant who, with a shrug of his massive shoulders, throws the Lilliputians to one side.

I lived through the Great Depression. Gentlemen, I don't know if any of you are old enough to remember it. I don't want to see it again. I am one of the few people in this room probably who has been on welfare. I know what it is. My father was a factory worker thrown out of work during the Great Depression.

I saw then what Mr. Durant was talking about, the rise of political extremism of both the left and the right in that period. I am sorry to say that I see the signs of it coming again, and we must do something about it. Men of good will must do something about it.

What is happening? During the year 1982, one out of every three working people in the United States will suffer from unemployment in one form or another. At any one time, 10 million Americans will be out of work and looking for employment. More than 1 million others will have given up and stopped looking. Statistically, they will be nonpersons. There are another 5.4 million who want full-time work, but can only find part-time employment.

Now, aside from the human misery, which is hidden behind these statistics, what does this say about the health of the national economy? Do these unemployed people affect tax revenues? Certainly they do, because if you are not working you don't tend to pay taxes in the same ratio that you do when you are working.

Do they contribute to the dwindling social security reserves? No, they don't, because when you are not working you are not making a contribution into social security. And this is one of the reasons for the deficit we are beginning to see.

Do they buy the goods of the merchants on Main Street? Of course not. Do they add to local and national welfare costs? Of course they do. Is there a relationship between rising crime rates and rising unemployment rates? I would make the argument that there is a very definite relationship.

I remember the period of the 1930's and crime in the streets then. Some people would look back on those and call them the good old days. I can only tell you they were not so hot.

Look at this another way: If all of us had a task that we had to perform, a socially necessary task, would it make any sense to have one-tenth or one-fifth of us sitting off to the side doing nothing because we could not organize ourselves well enough to do that task? Has the work of building America been finished? Can we now say to millions of our fellow citizens who are eager and willing to work, "Sorry, we don't need your help. We need no more schools, no more hospitals, roads, bridges, consumer goods. We don't need to increase our supply of teachers, doctors, policemen, firemen, musicians, artists, carpenters, laborers, or whatever other skills you may possess. Please go away. Get out of sight and don't bother us?"

You know, there are many people who are quite affluent in this country who have that feeling about the poor. "Why don't they go away and quit bothering us?" And yet it has been quite fashionable, as it was during the Great Depression, to sneer at and denigrate the unemployed.

They are called lazy and shiftless and people who really don't want to work, and yet every time some business puts out the word that they are going to put on a few more workers, they are flooded with hundreds of people scrambling for those few jobs.

No, the problem is not with the American workers. They are as hardworking and as dependable and as skilled as any working people in the world. The problem is in the American economy and something must be done about it, and must be done about it quickly. There is no real solution short of a full-employment economy.

I don't want to hear something about, well, a certain number of people are always going to be unemployed. Obviously we recognize that. I guess some attempt was made by the Congress some years ago when the Humphrey-Hawkins Act was passed. It seems to be almost meaningless in the context of today.

The trouble is that the wrong thing is being done now. The economic programs of the Reagan administration are a total disaster, and the situation is steadily worsening. High interest rates have ruined the housing market. They have crippled auto sales. They have badly impacted the sales of all consumer goods which must be purchased on a time-payment basis.

An Associated Press story in the Orlando Sentinel Star on Saturday, May 15, says:

> Production by the Nation's factories and mines fell 0.6 percent in April from March, continuing a slide that has seen output decline in 8 of the last 9 months. The total production was down 7.4 percent from April of 1981. .

That is in 1 year, down 7.4 percent.

There are 440 business bankruptcies weekly now, up 60 percent since January of 1981. This is the highest since the Great Depression.

Whatever happened to that great boost that the provisions of last year's Gramm-Latta bill was supposed to give to production incentives in this country?

The same newspaper noted that wholesale prices edged up again in April, and that food prices, which are a major part of a workingman's budget, shot up 1.6 percent, for an annual rate of 19 percent.

Administration spokesmen were quoted with the usual mitigating double talk and prognostications for a brighter future. There are Pollyanna Chamber of Commerce types right here in central Florida that would try to convince us that we are somehow immune to the national malaise; that there is something in the balmy climate or the presence of Disneyworld and Sea World which will ward off economic evil like a magic talisman. This is, of course, pure fantasy.

Now, it may take some time to reach us, but it is coming; it is arriving right here in central Florida. Sunday's newspaper notes that farmers, even in the Deep South, are confronted with a cost-price squeeze, and that farm debt has almost quadrupled since 1971, during the last decade.

Sunday's headline was—and I think I have it here—"Number of Jobless in Florida Nears Record."

These statistics will not go away. There are 402,000 Floridians officially out of work and the number is increasing. The unemployment rate in relatively prosperous Florida is only one-half of 1 percent below the national rate. The tourist and amusement parks are complaining that business is off, and coincidentally, tax revenue from the tourist tax is not equaling expectations.

In this morning's paper, which you probably have not had much of a chance to see, it tells how the American apparel manufacturers annual convention was held at Disneyworld a couple of days ago. A little quotation from what was said there by some of the executives in the clothing industry: "Florida and Texas always used to be sacrosanct and the recession never affected those two Sun Belt States. Now Florida and Texas are mortal, like other States." Jane Evans, executive vice president for General Mills "General Mills is not just in the food business; they are also in the clothing business," and a number of others says they "have noticed sluggishness in Florida's retailers. Sales in Florida are down versus last year. The retailer mood is not very good, and the decline in tourist trade is affecting them."

Mr. JOHNSTON. Mr. Burkhart, I am going to have to leave in a few minutes. I would like to ask you one question. What would you do if you were President of the country and had the Congress under control? What would you do right now to restore the economy?

Mr. BURKHART. Well, Congressman Johnston, I watch you on public television quite often, and I would say that my answer probably would not suit you.

Mr. JOHNSTON. I would like to know your answer.

Mr. BURKHART. I would change the philosophy of Government.

Mr. JOHNSTON. Just tell me what you would do.

Mr. BURKHART. I think, first of all, Government should be an instrumentality of the people and should operate for the people. I would not be as concerned as many people are with balancing the budget.

I don't say that the budget should not be balanced, but I say this: In the absence of the ability to balance the budget other than on the backs of the aged and of the poor, that the budget should not be balanced. It is not that important. I think that we should have Government with human compassion.

Mr. JOHNSTON. That is a nice generality, but give me some specifics. We are following your lead. We are not balancing the budget. So we are right on No. 1.

Mr. BURKHART. Well, it is not because of lack of effort. I saw Secretry Schweiker on television just the other day. He was defending the Reagan budget cuts. He said in defense of those cuts that what we must do is all make sacrifices in times like these, and some uppity newspaperman said to him, "Secretary Schweiker, what sacrifice do you plan on making personally?" He was at a complete loss for words. Finally he ended up rather lamely saying, "Well, my children could not get school lunches in the public schools." He doesn't happen to have any children in the public schools.

But this is the type of thing I am talking about. You are going to ask the American people to make sacrifices. They are willing to make sacrifices provided that these sacrifices are made across the board, and the system that your administration is now furthering does not do that at all. In fact, it makes the fat cats fatter and it makes the poor poorer.

I think what you are doing is polarizing and dividing this society by the type of programs that the rightwing ideologues of the Reagan administration are constantly pressing.

Mr. JOHNSTON. Coming back to the question, what would you do? Apart from criticizing the Reagan administration, just tell me what you would do as President.

Mr. BURKHART. There is a program which is being pressed now by Congressman Downey. I am sure you know him.

Mr. JOHNSTON. Very well.

Mr. BURKHART. Yes. I am sure he is one of your boon companions. I had this information at the end of my talk, but because you have to leave, I shall come down to this.

As you said, as the President said, put up or shut up; you need to have an alternative program. The AFL-CIO has had such a program. It has been presented in many committees of the Congress.

Now, James Shannon, Democrat of Massachusetts, is also a member of the committee. Frank Guarini, Democrat of New Jersey, has introduced a section of this.

For example, it proposes a limit of $700 a year on 1982 and 1983 individual income tax cuts. In other words, the income tax that you people passed last year was one which did a great thing for people who are making more than $50,000 a year, but not much for the rest of us. This cap would not affect most households with incomes of up to $40,000, and it would raise more than $27 billion through 1984 in revenue. Is that specific enough?

Mr. JOHNSTON. In other words, you want to raise taxes.

Mr. BURKHART. Please don't give me this business of answering you yes or no. My answer to the question is this: I am an American. This country has been good to me. I have worked hard all of my life. I am now in a position where I am ready to give some of it back.

I do not object to paying taxes, and if I were more able to, I would pay more in taxes. I think there probably are more people in the higher income brackets who ought to be thinking in those patriotic terms. Patriotism is not just for the poor.

Mr. JOHNSTON. What would step 3 be? The first step was not balancing the budget. The second was raising taxes. What would be the third thing?

Mr. BURKHART. These are your interpretations of what I said, and they are highly partisan.

Mr. JOHNSTON. I understood you to say take back the tax cut.

Mr. BURKHART. My testimony, I admit, is partisan.

Mr. NELSON. Congressman Gephardt, do you have any comments?

Mr. GEPHARDT. I have no questions. I appreciate you coming here and making your statement.

I have appreciated the entire hearing. It has been excellent. You had an excellent group of witnesses in all areas of the budget and the economy. I appreciate very much having been invited here to be part of this today.

Mr. BURKHART. I have about 3 more minutes.

Mr. NELSON. Yes. You have as much time as you like.

Mr. BURKHART. We would urge the Congress to oppose the heartless budget cuts of the administration, and we reject the concept of a New Federalism, which we think is simply a ploy to shift responsibilities to the various States without furnishing necessary funds.

Such a program would balkanize our country into 50 separate entities in terms of social programs and would occasion catastrophic population shifts from one State to another. We have already seen some of that in past decades. New York City is probably an example of what happens in such cases.

To solve our current economic problems, we must put our people back to work. There is work in rebuilding our deteriorating communities, including sewers, highways, bridges, mass transit, railroads, and other facilities.

Instead of cutting back on training programs, we should be accelerating them. There should also be the possibility of public employment for those who cannot find work after long searches. I am not in favor of taking people, that small minority, who may not wish to work, and doing this for them. But I do think after a person has looked and looked and looked for work and cannot find it, there is some responsibility on the part of Government.

We should encourage low- and moderate-income housing, and we should aid those key sectors of the economy that need special assistance through loans, grants, or guarantees.

I know Congressman Johnston would not agree with me. He worried a while ago about the bailout of Chrysler. But I think what was done in the Chrysler instance has not been detrimental to this country. I think it has been helpful and headed off a considerable disaster for many, many people.

I think that we should limit imports that generate unemployment in key industries in our country. If necessary, we should use quotas as other industrial countries do. Free trade should give way to a self-interested fair trade.

I don't think that we should have government by some kind of shibboleth. That is where you have hard-nosed ideologues who say free trade, and that is it. I think we have to be more intelligent than that. We have to take a look at what is happening in our country, and we must have the wisdom of the moment, the wisdom of our decade, if I could put it that way.

I think that we should reject the concept of free enterprise zones because I think they would simply shift jobs to low-wage areas while depressing other areas of the country.

I think the Federal Reserve Board should be made more responsive to the actual economic needs of the country in terms of interest rates and credit flow. You have already had testimony on this today.

We are opposed to any cuts in social security programs, and we don't believe that the budget should be balanced in that fashion. There has been some talk about separating off the social security problem from the rest of the budget.

Mr. NELSON. What do you think about that?

Mr. BURKHART. Yes, I think it ought to be seriously considered.

Our budget policy should be based on the needs of the many, not just the few. We cannot have a society which is polarized between haves and have nots, and the solution is not in the economic policies which were discredited in the late 1920's and early 1930's, but they have now reappeared labeled as new and innovative.

Supply-side economics has not and does not work. It should be discarded before we are even more severely injured.

The AFL-CIO believes that its alternative programs will put the Nation on a path to achieve full employment, stable economic growth, fairness in sharing the burdens, and a society whose hallmark is decency and compassion. Thank you very much.

Mr. NELSON. Thank you, Mr. Burkhart and Mr. Durant. Thank you for the testimony. It was most enlightening.

This has concluded a series of panels that we have had, starting at 8 o'clock this morning, which have been most illuminating and enlightening for me and for the other two members of the House Budget Committee.

We are now going to take individual testimony from people who have indicated they would like to testify. We have been admonished by the mayor and city council that we must vacate the room at 1:30 because they have a city commission meeting shortly thereafter.

I will take the list in the order of the individuals that we have received notification from who would like to speak. Rev. Nelson Pinder. Welcome.

STATEMENT OF REV. NELSON W. PINDER, EPISCOPAL PRIEST, ORLANDO, FLA.

Reverend **PINDER**. I am Nelson W. Pinder, an Episcopal priest here in Orlando.

First I would like to thank the Congress for what they did for the education bill for the students.

I would like to thank you personally, Congressman Nelson, for your help in getting passed through the House the Voting Rights Act to be extended.

Now I would like to ask your help on something else that is very important and dear to the people of this community.

First I think it is the job of the American Congress to recognize the rights and the needs of society by guaranteeing the right to vote, job opportunity, education, health care, as well as adequate housing, food, and clothing.

Such affirmations call for a positive role of the Government at the time that leaders of Government are bad-mouthing the role of Government and telling what Government should not be doing.

I think we live in a State here that is in dire need of having home and capital investment. Our educational facilities are in need of Government support. The job market, the retraining of people who are unemployed, need to be kept up and that the CETA program and that the home and regulations program which is now called sometimes by people the training of people for new jobs to be relocated.

The Headstart program you refunded at a level by which people can participate in it. Our young people can be trained at an early age, and parents can go back to work.

We also need to take the money that has been cut from the CETA program and restore it, because Florida is in need of many people to be trained for work.

I also urge that this Government, this Congress, restore the money for research and development that has been cut tremendously. Without research and development, many of our colleges, universities, will not be able to carry on the programs enabling this country to become the kind of country it ought to be.

I also urge your support to defeating what I call the New Federalism, because being a black, I know what States' rights can do for you. One of the worst things that could happen is to put this money back into the hands of the States without the kinds of control that was there before. Black people and other minorities do not make progress so long as the money came from the States.

For instance, when I finished high school in Florida, in Miami, I wanted to go to college. Upon finishing college, I wanted to go to graduate school. The State of Florida at that time would not let any black people into the graduate schools. They would pay us to go to other schools that would take black people for graduate studies. That is one example I can talk about. Others I don't want to bother you with.

I do hope in your power and your vote, you support the people of Florida by being sure that the programs we need here be reinstated.

A word about balancing the budget. I don't know anyone in America that has a balanced budget. Why should the Government start?

Mr. **Nelson**. Thank you, Reverend.

Next on the list of individual testimonies, Joseph Yore, SAI, manufacturers' representative. Welcome, Mr. Yore.

STATEMENT OF JOSEPH YORE

Mr. **Yore**. Thank you. I handed your assistant my card. I am not here representing SAI, manufacturers' representatives. I think I am the first individual representing myself and possibly a lot of other individuals that have spoken today.

So far we have over 5 hours and 10 minutes of testimony from the special interest groups that we continually hear about—city, county governments, labor, banks, homebuilders, all of those things.

I am here simply because when my clock radio came on this morning, it said you were going to be here, and your constituents. I have no prepared speech, I have nothing to turn in, but I have some points that I would like to make.

I am sorry that Congressman Johnston left. I had hoped to get a group of the people here for a round of applause for what I consider as an individual, one of the noninterest group people, as one of the most oustanding voting records that I can imagine in Congress, in the 97 percentile insofar as not voting to spending issues. I think that is very admirable.

I think many of the things we have heard talked about today have been directed at the smokescreen and not directed at the fire involved. I think that the very issue is Federal spending and the why of it—reduce the spending. I am not here to ask what it is that you can—this must be somebody's old term, Kennedy's or somebody's—I am not here to ask you to power money back, all I am here to do is to ask you to take less money from.

Money is like energy. When it travels over a distance, the further it has to travel, the more it is used up in its travel. I think we have the ability ourselves as individuals on a local basis to determine our own destinies far more than sending that dollar off to Washington, making that long-distance trip, and by the time it gets through the changes, running here as 5, 10, 25 cents, even 50 cents—I say let's not do that anymore. Let's keep it locally, where we can work with it in a way we all know how.

We had people—I am just throwing out ideas that have come to mind just from people talking this morning. We had bankers talking about regulations, the very regulations they begged for in the early stages. It was the greatest thing to come along for them. They wanted all that regulation. They wanted that ceiling on interest rates they had to pay, and all of those types of things, along with the transportation industry and all the other industries who have begged for that very regulation. That very regulation is now choking them all to death. Greed has won out, I believe.

I don't think we give the American people nearly enough credit for our ingenuity. The housing market, yes, it is crippled right now. If the sale of homes were left strictly to the conventional financings in the conventional changes, I think the percentage of homes selling now would be far lower than it is. The ingenuity of the American people has—we have figured out lots of ways to get around the havoc that has been playing right now in the financial situation. A lot of owner financing, a lot of other types of things. Our ingenuity is winning out.

Something that came to mind just off of a newscast this morning. I think we are really being buffaloed by the giveaway of free cheese.

Let me say—these sound like a lot of diverse issues. But each of the people that have spoken before me today have been here as one-issue people for their special interests. And by the way, a special interest is a group of people who would like to take 5 cents from everybody so they can pool it into $1 million for themselves, or whatever the number happens to be. I am speaking from the side of the person who is getting the 5 or 10 or 20 cents taken away, to accumulate it someplace for somebody else. So the issues that I have to address are very many as opposed to the single issue.

The free giveaway of cheese, where the origination of that came about, the subsidies to the farmers, in essense we are probably paying $2.25 or whatever it is for a gallon of milk—in reality we may only need to be paying $1.25 or $1.50, where the Government subsidies and the buying up of the surpluses has kept that price artificially high. The 10 dollars' worth of cheese being given to a person may have over the years paid $50 for the right to receive that 10 dollars' worth of cheese in return. It is a system that is not working, it is a system that the Government is not there to be in.

We have talked about loopholes today. Loopholes are something that start off as incentives for people to do very positive things for our society. And by the time a lot of people get involved in those positive types of things, all of a sudden some of the groups are starting to yell, loophole.

Well, none of those things were put in place for the purpose of giving anybody—giving the rich a tax break. They were put in place for the purpose of providing a benefit, a non-Government benefit, so to speak, by free enterprise. They were put into effect for those purposes. And all of a sudden we turn it around soon and are yelling loophole. And those are incentives to do things rather than direct money hand outs. I think the term loophole is very misused, and it is very misguided.

We heard from labor today. North American Rockwell Co. in Columbus, Ohio, they have one of the contracts for one of the new military aircraft or a portion. They just put out a list of jobs that needed to be placed, 550 people they needed to hire. They had 25,000 people apply. And you know, out of those 25,000 people, they could not fill the job skills needed by the 550 they were looking for on a local basis and had to go outside of the Columbus, Ohio, area. So we have unskilled people, and people who for one reason or another are not capable of some of these jobs that we have open.

The subject of social security has been brought up. I guess on that issue I would just like us to take a look back, how many years social security has been in place and how many years prior to that have we lived in this society and in this world, and people have existed on this planet without social security. We took care of ourselves very well prior to that. And I think the outcome of it, as in most Government programs, has been very negative to cause a dependence as it were on Government, where in fact we don't need that.

The things I have talked about are very disjointed. But what you are going to be going back to Washington with is 5 hours and 10 minutes of testimony by special interest groups, and about 20 minutes worth of testimony by individuals. I would like to think that the 20 minutes will carry heavy weight.

Mr. NELSON. Thank you. I appreciate your comments. I appreciate very much that you were interested enough once you heard the announcement on the radio to come and participate in this hearing. I appreciate that.

We have three remaining individual witnesses. If you all could keep it to about 4 minutes each. John Hedrick, Bruce Hinshelwood, and Jack Hubbard.

STATEMENT OF JOHN HEDRICK

Mr. HEDRICK. Congressman, good to be here. I, too, read about it in the newspaper this morning.

As you may be aware, I have been doing budgetary analysis to the Federal Government budget for some months now, in response to what the President said, put up or shut up.

I am going to summarize very quickly a massive amount of material. I have been feeding it to you in pieces as I get the documents done. There will be a third installment.

Basically, unless I mention it otherwise, I am opposed to the cuts the administration makes, and I am in favor of what I am suggesting in this document.

Between the individual and corporating taxes there are over 24 billion dollars' worth of tax expenditures or loopholes as they are otherwise called. This is from the CBO in Washington; 65 to 95 percent of the cuts benefit those earning over $30,000 a year. The large corporations gain most of the benefits from corporating taxes. This is not counting the inheritance taxes and the like. These loopholes could be totally closed and tax rates reduced in order to construct a fair, progressive taxing system based on the ability to pay, redressing much of the burden to large businesses, wealthy stockholders and other wealthy individuals.

Assuming a reduction is in the public interest, it should be made into a direct subsidy, where we can see it each year and have scrutiny of it each year rather than have it buried in the back door of the expenditures.

ECONOMIC FACTORS

You have heard about the interest rates. If we pulled the interest rates down to 1977 levels, you will save $30 billion in addition, to alleviating a severe credit crunch.

The same thing for unemployment. Every 1 percent drop in unemployment will bring the Government back into balance with the budget approximately $30 billion. And we know what will happen with people back at work, all the other benefits from that.

It is very important that the Government get back involved in direct job creation ventures, that they aim investments, get involved where credit should do, credit controls. And they also should adopt an inflation policy that doesn't rely on unemployment to bring inflation down. There are controls that can bring inflation down.

ENFORCEMENT

IRS said $73 billion in taxes were not collected in 1982; $96 billion this year they estimate. More resources going to the IRS can bring in these resources. Much of the money is not coming from corporations and individuals that need to be paying that. You can bring the budget practically back into balance if we were able to elmininate those moneys.

THE MILITARY

From the analysis done, we can copy off—many other groups have done analysis—we can cut back dramatically the amounts of money going to the military and still be safe for our defense. My estimate comes up to between $150 and $160 billion, because we are subsidizing Europe, Japan, and other countries around the world to the tune of between $125 to $130 billion. If we had them assume some fair portion of their share of this defense burden which our country is putting up, and which is weakening our economy—the machine is estimating 6½ million jobs could be created if we put this money into civilian industry—that would be good for our economy.

The Pentagon cannot spend all the money it is getting. As of September 1, 1980, they had approximately $90 billion they had not spent in the pipeline. And there are other moneys in there that are being wasted.

There are a lot of things to be done with Federal credit. We have $550 billion in loans and loan guarantees on the books. We lost $6 billion of the guarantees, $30 billion in foregone interest, $24 billion in overdue debt.

There is waste, fraud and abuse in the Government. I think a fair item you could ask each Government agency to do—it takes so long to get into analyzing budgets. You should ask them to take 5 or 10 percent of each of their budgets, out of nonpersonnel areas—just take it out of there. Because there is always a cushion in there. And that needs to be tightened up. And that is the type of waste, fraud and abuse, I think, you will find is existing.

COLA is another area. You are well aware the cost of living reimburses people higher than what actually happens, because they assume you have to buy a house every month. If you make a nonpolitical adjustment in COLA, I think you can save moneys.

FOREIGN AID

I think the entire field needs to be reexamined, because most aid is generally military instead of economic. It is used to benefit countries not as much in need as others. Much of it is funded to the ruling classes in those countries and used to keep these countries dependent upon us.

Mr. NELSON. If you could wrap it up soon.

Mr. HEDRICK. Right. Very quickly, in each agency there are priority choices to be made between various programs, such as transportation, put your money in public mass and rail transit, and put it into maintenance of existing facilities, rather than put it into new construction. Similarly, that can be done in many of these other areas. I won't go into those.

But I think there are many things that can be done that we can do to reduce and eventually eliminate the debt of the United States, that most people can have lower taxes, we can provide for the human need programs in this country we really need, and put our moneys effectively where they need to be going rather than where they are going. I thank you for your time.

Mr. NELSON. Thank you, we appreciate that. Bruce Hinshelwood.

STATEMENT OF BRUCE HINSHELWOOD

Mr. HINSHELWOOD. Congressman, like Mr. Yore, I just woke up this morning and found your name in the paper. I just wanted to come down here and represent nobody or nothing. I did come down here because I want to express a few things to you. All I am doing, I am just out there here in Orange County, one of your constituents working. I put in 14 hours this weekend. No overtime in my job.

I am here to tell you that people like me are getting squeezed dry. I would urge on you several things. You wanted specific budget proposals. I urge you to keep the tax cut intact. It is the only break people in my position have gotten for 40 years.

I urge you to support tuition tax credits, because as a parent of a young child who I assure you will go to private schools, I resent paying twice for the education of my child. I will support the public schools as needed. But we need some help on the private school tuition, too.

If you are looking for areas to cut, all you have to do is look at the two big ticket items in the Federal budget. You know what they are: Social security, and the military and Federal pay. It is no mystery. You can look at any chart. Those are the areas that have to be addressed.

I am particulary familiar with military pay as you may guess from my hair. I can assure you, Congressman, unlike other people in my position, I believe military pay to be grossly out of line with the effort and responsiblity given by people in the military.

In summary, Congressman, I just want to say this. Special interest groups—you have heard them all this morning—have every justification under the Sun for their little feifdom. And they are all good, taken individually, but the impact overall on this country is devastating. You can look at the actuarial calculations for social security and the Federal pension system. We are headed for disaster. The figures do not lie.

I urge you to support President Reagan's economic program. It is not perfect. I have objections to individual parts of it. I happen to believe with the present state of affairs in Washington, it is the only one with any realistic chance of being put in place and being accepted by the American people.

I appreciate this opportunity to talk to you, sir.

Mr. **Nelson.** I want to thank you very much for taking the initiative after, hearing the news to come here today. I appreciate it very, very much.

Mr. **Hinshelwood.** Without knowing who your opposition is this fall, I wish you luck.

Mr. **Nelson.** Jack Hubbard.

STATEMENT OF JACK HUBBARD

Mr. **Hubbard.** Thank you, Congressman. I will make it brief.

I would like to go on record supporting President Reagan's programs. I am a firm believer in the free enterprise system. This is what this country was founded upon. And I think Government has grown too big. I think, for example, the Department of Education, Department of Energy, should be eliminated completely, and efforts made to return the money to the States, a great portion of it.

I feel the time has come we should not be bailing out corporations such as cries here, et cetera. For example, recently the savings and loans went to Washington to try to get themselves bailed out. I think the banks of New York will probably do the same thing. In fact, Poland, for example, owes the West approximately $27 billion, a lot of it to the IMF, to the World Bank and to Chase Manhattan and City Bank of New York. These loans, which were very risky loans to begin with, are guaranteed by an arm of the Federal Government. If I am not mistaken, it is the Commodity Credit Corporation. And I don't see why myself, as a taxpayer, has to pay, through taxes, for defaults on loans that should not have been made in the first place, if you follow what I am saying.

I agree that President Reagan is absolutely right in not bailing out these various corporations who have not provided for themselves in the capitalistic way to take care of these problems they have had.

Getting back to the Poland situation, I don't believe it is in the best interests of this country to be lending money to the enemy, and they are a Communist satellite of Russia, who in turn are taking part of that money to try to overthrow this Government. I think that is wrong. I think you all should look into this situation, to preclude making the type of loans.

I know the time has run out. I appreciate what you are doing in Congress.

Mr. **Nelson.** Thank you for your testimony, for all of you who have been here either part of the time or all 5½ hours with us. It has been a most enlightening and educational day for the Budget Committee.

The official field hearing of the House Budget Committee stands adjourned.

Special thanks to our official reporter, who has done quite a job today. We appreciate it.

[The following additional material was submitted for the record:]

PREPARED STATEMENT OF CHARLES D. GRAY, COLONEL, USMC (RET.), LEGISLATIVE OFFICER, ON BEHALF OF THE BREVARD COUNTY VETERANS ADVISORY COUNCIL, INC.

Congressman Bill Nelson and members of the Congressional Budget Committee, the Brevard County Veterans Advisory Council, Inc., is unanimous in requesting your support in taking action to prevent certain changes in veterans' benefits which could result in catastrophic hardship and damage to those who have been handicapped as a result of service to their country.

Specifically:

A. Payment once a year to those rated 10 percent service connected disabled.

B. Discontinuance of dependency allocation to those rated 30 and 40 percent service connected disabled.

C. Offset of social security or other disability allowances for those rated under Code 18 for unemployability. (Elimination of the Code 18 benefit would be devastating to the lives of many service connected veterans, reducing their annual incomes on an average of $5,000, making it impossible for many to meet mortgage payments, provide for their children's education and maintain a minimal standard of living. Elimination of the Code 18 benefit would also discriminate against a specific group of veterans, depriving them of a benefit regulation that has been in existence for many years.)

This Council does support the need to curtail expenses and reduce the Federal budget, a goal that should be supported by all sectors of the economy. We subscribe to and support the following measures:

(A) Reduction in cost-of-living allowances;

(B) Temporary freeze on cost-of-living allowances;

(C) That such action be across-the-bcard, including veterans, civil service retirees, military retirees, government employes, elected officials and appointees.

Your support of bi-partisan, non-political, non-discriminatory action to ensure a humanitarian sharing of the burden of budgetary economies is implored.

[Whereupon, at 1:30 p.m., the committee adjourned.]

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